

Weekly Compilation of
**Presidential
Documents**



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WEEKLY COMPILATION OF

PRESIDENTIAL DOCUMENTS

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Week Ending Friday, December 17, 2004

**Proclamation 7853—To Take
Certain Actions Under the African
Growth and Opportunity Act With
Respect to Burkina Faso**

December 10, 2004

*By the President of the United States
of America*

A Proclamation

1. Section 506A(a)(1) of the Trade Act of 1974, as amended (the “1974 Act”) (19 U.S.C. 2466a(a)(1)), as added by section 111(a) of the African Growth and Opportunity Act (title I of Public Law 106–200) (AGOA), authorizes the President to designate a country listed in section 107 of the AGOA (19 U.S.C. 3706) as a “beneficiary sub-Saharan African country” if the President determines that the country meets the eligibility requirements set forth in section 104 of the AGOA (19 U.S.C. 3703), as well as the eligibility criteria set forth in section 502 of the 1974 Act (19 U.S.C. 2462).

2. Section 104 of the AGOA authorizes the President to designate a country listed in section 107 of the AGOA as an “eligible sub-Saharan African country” if the President determines that the country meets certain eligibility requirements.

3. Section 112(b)(3)(B) of the AGOA (19 U.S.C. 3721(b)(3)(B)) provides special rules for certain apparel articles imported from “lesser developed beneficiary sub-Saharan African countries.”

4. Pursuant to section 104 of the AGOA and section 506A(a)(1) of the 1974 Act, I have determined that Burkina Faso meets the eligibility requirements set forth or referenced therein, and I have decided to designate Burkina Faso as a beneficiary sub-Saharan African country.

5. Burkina Faso satisfies the criterion for treatment as a “lesser developed beneficiary sub-Saharan African country” under section 112(b)(3)(B) of the AGOA.

6. Section 604 of the 1974 Act (19 U.S.C. 2483) authorizes the President to embody in the Harmonized Tariff Schedule of the United States (HTS) the substance of the relevant provisions of that Act, and of other acts affecting import treatment, and actions thereunder, including the removal, modification, continuance, or imposition of any rate of duty or other import restriction.

Now, Therefore, I, George W. Bush, President of the United States of America, acting under the authority vested in me by the Constitution and the laws of the United States of America, including sections 506A and 604 of the 1974 Act and section 104 of the AGOA, do proclaim that:

(1) Burkina Faso is designated as an eligible sub-Saharan African country and as a beneficiary sub-Saharan African country.

(2) In order to reflect this designation in the HTS, general note 16(a) to the HTS is modified by inserting in alphabetical sequence in the list of beneficiary sub-Saharan African countries “Burkina Faso.”

(3) For purposes of section 112(b)(3)(B) of the AGOA, Burkina Faso is a lesser developed beneficiary sub-Saharan African country.

(4) The modification to the HTS made by this proclamation shall be effective with respect to articles entered, or withdrawn from warehouse for consumption, 15 days after the date of this proclamation.

(5) Any provisions of previous proclamations and Executive Orders that are inconsistent with this proclamation are superseded to the extent of such inconsistency.

In Witness Whereof, I have hereunto set my hand this tenth day of December, in the year of our Lord two thousand four, and of the Independence of the United States of America the two hundred and twenty-ninth.

George W. Bush

[Filed with the Office of the Federal Register,
10:39 a.m., December 13, 2004]

NOTE: This proclamation was published in the *Federal Register* on December 14. This item was not received in time for publication in the appropriate issue.

Proclamation 7854—Human Rights Day, Bill of Rights Day, and Human Rights Week, 2004

December 10, 2004

By the President of the United States of America

A Proclamation

During Human Rights Day, Bill of Rights Day, and Human Rights Week, we celebrate the founding ideals of our Nation and emphasize the importance of protecting human liberty throughout the world.

As a Nation, we cherish the values of free speech, equality, and religious freedom, and we steadfastly oppose injustice and tyranny. Since the founding of America, the Bill of Rights has protected basic human rights and liberties. In the United States, all citizens have the opportunity to voice their opinions, practice their faith, and enjoy the blessings of freedom.

After the tragedies of World War II, the United Nations General Assembly adopted the Universal Declaration of Human Rights as part of a global effort to curb the cruelty and systematic injustice that had destroyed so many lives. The Universal Declaration of Human Rights affirms the inalienable rights of people everywhere.

In the time since, progress has been made in ensuring that human dignity is respected, and we have witnessed the rise of democratic governments around the world. No other system of government has done more to protect minorities, secure the rights of labor, raise the status of women, or channel human energy to the pursuits of peace than democracy.

My Administration continues to encourage free and open societies around the world. In Burma, we have called on the ruling junta to release Aung San Suu Kyi and engage in dialogue to bring democracy to that country. We are helping lead the international effort to end the suffering in Sudan. We seek to help the people of North Korea, who are struggling to survive under severe repression

and difficult living conditions, and our Nation continues to stand with those who strive for democracy in Belarus, Cuba, Iran, and Zimbabwe.

My Administration also has advanced the fight against human trafficking and the abuse and exploitation of women and children, particularly of young girls in the sex trade. In addition, we have expanded our Nation's support for democracy promotion programs globally and have increased the budget for the National Endowment for Democracy to strengthen support for free elections, free markets, free speech, and human rights advocacy around the world.

Freedom and dignity are God's gift to each man and woman in the world. During this observance, we encourage all nations to continue working towards freedom, peace, and security, which can be achieved only through democracy, respect for human rights, and the rule of law.

Now, Therefore, I, George W. Bush, President of the United States of America, by virtue of the authority vested in me by the Constitution and laws of the United States, do hereby proclaim December 10, 2004, as Human Rights Day; December 15, 2004, as Bill of Rights Day; and the week beginning December 10, 2004, as Human Rights Week. I call upon the people of the United States to honor the legacy of human rights passed down to us from previous generations and to mark these observances with appropriate ceremonies and activities.

In Witness Whereof, I have hereunto set my hand this tenth day of December, in the year of our Lord two thousand four, and of the Independence of the United States of America the two hundred and twenty-ninth.

George W. Bush

[Filed with the Office of the Federal Register, 8:45 a.m., December 14, 2004]

NOTE: This proclamation was published in the *Federal Register* on December 15. This item was not received in time for publication in the appropriate issue.

Memorandum on Renewal of Trade Agreement With the Socialist Republic of Vietnam

December 10, 2004

Presidential Determination No. 2005–11

Memorandum for the United States Trade Representative

Subject: Renewal of Trade Agreement with the Socialist Republic of Vietnam

Pursuant to my authority under subsection 405(b)(1)(B) of the Trade Act of 1974 (19 U.S.C. 2435(b)(1)(B)), I have determined that actual or foreseeable reductions in U.S. tariffs and nontariff barriers to trade resulting from multilateral negotiations are being satisfactorily reciprocated by the Socialist Republic of Vietnam. I have further found that a satisfactory balance of concessions in trade and services has been maintained during the life of the Agreement on Trade Relations between the United States of America and the Socialist Republic of Vietnam.

You are authorized and directed to publish this determination in the *Federal Register*.

George W. Bush

[Filed with the Office of the Federal Register, 9:22 a.m., December 20, 2004]

NOTE: This memorandum will be published in the *Federal Register* on December 21. This item was not received in time for publication in the appropriate issue.

Presidential Determination To Waive the Application of Section 901(j) of the Internal Revenue Code With Respect to Libya

December 10, 2004

Presidential Determination No. 2005–12

Memorandum for the Secretary of Treasury

Subject: Presidential Determination to Waive the Application of Section 901(j) of the Internal Revenue Code with Respect to Libya

By virtue of the authority vested in me by the Constitution and the laws of the United

States, including section 901(j)(5) of the Internal Revenue Code (the “Code”), I hereby waive the application of section 901(j)(1) of the Code with respect to Libya.

I hereby authorize and direct you to arrange for publication of this determination in the *Federal Register*.

George W. Bush

NOTE: This item was not received in time for publication in the appropriate issue.

The President’s Radio Address

December 11, 2004

Good morning. Social Security is one of the great moral achievements of American Government. For almost 70 years, it has kept millions of elderly citizens out of poverty and assured young Americans of a more secure future.

The Social Security system is essential, yet it faces a deepening long-term problem. While benefits for today’s seniors are secure, the system is headed towards bankruptcy down the road. If we do not act soon, Social Security will not be there for our children and grandchildren.

So this week I met with the bipartisan leadership of Congress and asked them to join me in a great cause, preserving the essential promise of Social Security for future generations. We must begin by recognizing an essential fact, the current Social Security system was created for the needs of a different era. Back in 1935, most women did not work outside the home and the average life expectancy for American workers was less than 60 years. Today, more moms are working and most Americans are blessed with longer lives and longer retirements. The world has changed, and our Social Security system must change with it.

Today, Social Security is not a personal savings plan. There is no account where your money goes to earn interest. Benefits paid to today’s retirees come directly from the taxes paid by today’s workers. And each year there are more retirees taking money out of the system and not enough additional workers to support them.

In the 1950s, there were about 16 workers paying for every Social Security beneficiary. Today, there are about three. And eventually, there will only be two workers per beneficiary. These changes single a looming danger. In the year 2018, for the first time ever, Social Security will pay out more in benefits than the Government collects in payroll taxes. And once that line into the red has been crossed, the shortfalls will grow larger with each passing year. By the time today's workers in their mid twenties begin to retire, the system will be bankrupt, unless we act to save it.

A crisis in Social Security can be averted if we in Government take our responsibilities seriously and work together today. I came to Washington to solve problems, not to pass them on to future Presidents and future generations. I campaigned on a promise to reform and preserve Social Security, and I intend to keep that promise.

I have set forth several broad principles to guide our reforms. First, nothing will change for those who are receiving Social Security and for those who are near retirement. Secondly, we must not increase payroll taxes, because higher taxes would slow economic growth. And we must tap into the power of compound interest, by giving younger workers the option to save some of their payroll taxes in a personal account, a nest egg they can call their own, which Government cannot take away.

Saving Social Security for future generations will not be easy. If it were easy, it would have already been done. There will be costs, yet the costs of continued inaction are unacceptable. And the longer we wait, the more difficult it will be to fix the system. Saving Social Security will require bipartisan cooperation and the courage of leaders in both parties. The American people voted for reform in 2004, and now they expect us to work together and deliver on our promises. I look forward to working with Members of Congress on this important issue. Together we will make certain that America meets its duty to our seniors and to our children and grandchildren.

Thank you for listening.

NOTE: The address was recorded at 7:50 a.m. on December 10 in the Cabinet Room at the White House for broadcast at 10:06 a.m. on December 11. The transcript was made available by the Office of the Press Secretary on December 10 but was embargoed for release until the broadcast. The Office of the Press Secretary also released a Spanish language transcript of this address.

Exchange With Reporters in Bethesda, Maryland

December 11, 2004

Visit With Wounded Troops/President's Health

Q. How are you feeling, Mr. President?

The President. I'm—first of all, incredibly impressed by the health care that our military receives. I have just come from visiting with some of the wounded and their families, and the service that the doctors and nurses provide here for our troops is superb. It is such an honor to see those who have been put themselves—who have been injured and are now fighting back and recovering and seeing their spirit and their strength. And it's an uplifting experience to come here.

I can say to the loved ones in the military that their sons and daughters and husbands and wives get the very best medical care there is, and I am grateful for that.

As far as my own physical goes, I'm still standing. I, obviously, have just gone through a campaign, because—let me say, I've obviously gone through a campaign where I probably ate too many doughnuts, if you get my drift. My New Year's resolution has become apparent after getting on the scales. And although I think the doc will put out a report that shows you that I'm physically fit and still able to get on the stress tests, I'm a little overweight. And therefore, I fully intend to lose some inches off my waistline and some pounds off my frame. But other than that, I'm feeling great.

Thank you all.

NOTE: The exchange began at 1:42 p.m. at the National Naval Medical Center. A tape was not available for verification of the content of this exchange.

**Remarks on the Nomination of
Michael O. Leavitt To Be Secretary
of Health and Human Services**

December 13, 2004

The President. Thank you. Good morning. I am pleased to announce the nomination of Michael O. Leavitt as the Secretary of Health and Human Services. Last year I welcomed Mike to my Cabinet as the Administrator of the Environmental Protection Agency. In that office, he has enforced high standards and a spirit of cooperation and with good common sense. He has upheld this administration's commitment to sustain improvements in the quality of the natural environment. He has managed the EPA with skill and with a focus on results. I've come to know Mike as a fine executive, as a man of great compassion. He is an ideal choice to lead one of the largest departments of the United States Government.

The Department of Health and Human Services touches the life of every person in this country. From the safety of our food and medicine to the Medicare program to preparing for any kind of health emergency, HHS has comprehensive responsibilities for the health of Americans. To meet those responsibilities, the Department needs many thousands of skilled professionals and a leader who is able to act on many fronts all at once.

For the last 4 years, HHS has served the American people extremely well under the energetic leadership of Tommy Thompson. Early in his tenure, our Nation went on a wartime footing and had to prepare for emergencies of a kind never seen before. Secretary Thompson led the effort to prepare the medical infrastructure for any terrorist challenge.

At the same time, he has presided over dramatic increases in medical research, adding to the promise of hopeful new cures. He's helped set in motion major improvements in Medicare, which will benefit seniors all across America. He has worked closely with State and local officials to ensure that public health programs function as effectively as possible. And throughout his career as Governor and as Secretary of Health and Human Services, Tommy Thompson has led efforts

to reform welfare laws and to help more people transition from welfare to work. Tommy Thompson is a good friend who has given every day of the last 38 years to public service. As he and Sue Ann move on to new challenges, Tommy has my deep gratitude for a job well done.

My new nominee for HHS Secretary, like Tommy Thompson, served many years as a Governor. The people of Utah elected Mike Leavitt to three terms, and during his administration, Utah was named one of the best managed State governments in the country. Governor Leavitt was a leader in welfare reform, resource management, and environmental stewardship. He improved child welfare services in the State and made strides toward expanding access to health care for children. He made government services more accessible through the Internet, and he always insisted that the government remain accountable to the people it serves.

When confirmed by the Senate, Mike Leavitt will be charged with a broad agenda for the health and safety of the American people. In this new term, we will implement the first-ever prescription drug benefit for seniors under Medicare. We will expand Federal cooperation with faith-based groups that provide essential services, such as counseling and treatment for addictions. We will continue pursuing the great promise of medical research, always ensuring that the work is carried out with vigor and moral integrity. We will not relent in our efforts to protect the American people from disease and the use of disease as a weapon against us.

Mike Leavitt is the right leader to lead HHS in meeting all these vital commitments. I thank him for accepting this new responsibility. I also thank his wife, Jackie, and their son Westin for being with us today. I urge the Senate to confirm Governor Leavitt's nomination as soon as possible.

Congratulations.

[At this point, Secretary-Designate Leavitt made brief remarks.]

The President. Good job.

NOTE: The President spoke at 10:38 a.m. in the Roosevelt Room at the White House. The transcript released by the Office of the Press Secretary also included the remarks of Secretary-Designate

Leavitt. The Office of the Press Secretary also released a Spanish language transcript of these remarks.

Remarks on Presenting the Presidential Medal of Freedom

December 14, 2004

The President. Good morning, and welcome to the White House. Laura and I are proud to have you all here today, especially our three honorees and their families and their friends.

The Presidential Medal of Freedom is our Nation's highest civil award, given to men and women of exceptional merit, integrity, and achievement. Today this honor goes to three men who have played pivotal roles in great events and whose efforts have made our country more secure and advanced the cause of human liberty.

George Tenet learned the value of hard work as a busboy in the 20th Century Diner, the family restaurant in Queens, New York. Between work and school and athletics, George always kept up with current events and world affairs, and that enthusiasm led him into public service.

In Washington, George immersed himself in the field of intelligence work. After a long career in the legislative and executive branches of Government, George was tapped by President Bill Clinton to run the Agency he loved. His challenges at the CIA were many. George acted quickly and aggressively to rebuild the Agency's capabilities. He made the recruitment of new talent a top priority. Applications to join the Agency have now soared to more than 138,000 per year. Under George's leadership, the number of yearly graduates from the Clandestine Service Training Program have increased nearly six-fold. And just about every CIA officer can tell you a story about Director Tenet's hands-on style of management. He was often seen in the hallways, chewing on an unlit cigar—[laughter]—or showing up at their cafeteria table and talking shop.

George and his wife, Stephanie, came to know the people of the CIA, and the people of the CIA came to know them as decent, caring people who love their country and love

their family, especially their son, John Michael.

Early in his tenure as DCI, George Tenet was one of the first to recognize and address the growing threat to America from radical terrorist networks. Immediately after the attacks of September the 11th, George was ready with a plan to strike back at Al Qaida and to topple the Taliban. CIA officers were on the ground in Afghanistan within days. Seasoned American intelligence officers, armed with laptop computers, Afghan clothes, and a visionary plan, rode horseback with the fighters of the Northern Alliance, identified key targets for our military, and helped to free a nation.

Since those weeks, CIA officers have remained on the hunt for Al Qaida killers. More than three-quarters of Al Qaida key members and associates have been killed or detained, and the majority were stopped as a result of CIA efforts. CIA officers were also among the first to enter the battle in Iraq, alongside their colleagues in uniform. In these years of challenge for our country, the men and women of the CIA have been on the frontlines of an urgent cause, and the whole Nation owes them our gratitude.

George is rightly proud of the people of the Agency, and I have been proud to work with George. George has carried great authority without putting on airs, because he remembers his roots. There's still a lot of Queens in George Tenet. [Laughter] A colleague once said that "George has the intellect of a scholar and the demeanor of a long-shoreman." [Laughter] His tireless efforts have brought justice to America's enemies and greater security to the American people. And today we honor a fine public servant and patriot in George John Tenet.

General Tommy Franks was raised in Midland, Texas. Nothing wrong with that. [Laughter] I didn't know him then, but Laura and he went to the same high school. In those days, some people in Midland wondered about Tommy's future. Sounds familiar. [Laughter] At a recent high school reunion, Tommy's old principal told the general, "You weren't the brightest bulb in the socket," to which the general replied, "Ain't this a great country?" [Laughter]

America rewards talent, intelligence, and hard work, and the career of Tommy Franks is living proof. Tommy dropped out of college after 2 years to enlist in the Army. He quickly rose to become an officer, graduating from Officer Candidate School with honors and beginning his ascent through the ranks. He went on to finish his degree and earn one more. And he made the best decision of his life when he asked a young lady named Cathy Carley to marry him.

Tommy Franks served in Germany and Korea, at the Pentagon, and at the Army War College. He served in the Persian Gulf war. He served in Vietnam, where he was wounded twice. Yet his greatest challenges and his greatest service came after the attacks on September the 11th.

As the commander of CENTCOM, Tommy Franks held responsibility for defending American interests in some of the most remote and difficult terrain in the world. It's a job that requires the toughness of a general, the foresight of a strategist, the tact of a diplomat, and the skill of a good manager. Tommy Franks led the forces that fought and won two wars in the defense of the world's security and helped liberate more than 50 million people from two of the worst tyrannies in the world.

In Afghanistan, America and our allies, with a historically small force and a brilliant strategy, defeated the Taliban in just a few short weeks. The general likes to say that "no plan ever survived the first contact with the enemy." But in Iraq, Tommy Franks' plan did. A force half the size of the force that won the Gulf war defeated Saddam Hussein's regime and reached Baghdad in less than a month, the fastest, longest armored advance in the history of America warfare.

Today, the people of Iraq and Afghanistan are building a secure and permanent democratic future. One of the highest distinctions of history is to be called a liberator, and Tommy Franks will always carry that title.

General, the American people thank you for your courage, your leadership, and your lifetime of service in the cause of freedom and security. To the lists of medals and honors and awards you have already earned, I am proud to add the Presidential Medal of Freedom.

Jerry Bremer is a diplomat, a philanthropist, a businessman, and a fashion pioneer. [*Laughter*] Everyone knows the Bremer look—coat, dress shirt and tie, and desert combat boots. [*Laughter*] Beyond the fashion statement, Jerry will be remembered for his superb work in laying the foundations of a new democracy in the Middle East.

Jerry Bremer's life of service began in 1966, when he joined the Foreign Service. He was a special assistant to six different Secretaries of State and rose to become America's Ambassador to the Netherlands. In 1986, President Ronald Reagan appointed Jerry Ambassador-at-Large for Counterterrorism. Eventually, Speaker Hastert named him Chairman of the National Commission on Terrorism, and I chose him to serve on my Homeland Security Advisory Council.

When America and our coalition needed a seasoned diplomat and a manager to help the people of Iraq emerge from decades of oppression, I knew where to turn. For 14 months, Jerry Bremer worked day and night, in difficult, dangerous conditions, to stabilize the country, to help its people rebuild, and to establish a political process that would lead to justice and liberty. The job was demanding, requiring personal courage, calmness under fire, and hundreds of decisions every day. Yet, Jerry not only rose to the challenge, he found time nearly every day to study the Arabic language.

Jerry Bremer earned the respect and admiration of Iraqis and helped to assemble an exceptional group of Iraqi leaders for the Governing Council. With his help, these leaders drafted the Transitional Administrative Law, which charted the country's political future and established a bill of rights. In the final days of hammering out consensus on this landmark law, Jerry sat through day-long meetings, sometimes without ever speaking. His silence was essential to reassure Iraqis that the new law was entirely their own. Yet his presence was essential to reassure Iraqis of our coalition's steadfast commitment to their future and their success. Every political benchmark that the Iraqis set for themselves and that Jerry helped them meet was achieved on time or ahead of schedule, including the transfer of sovereignty that ended his tenure.

Sometimes, Iraqi officials would express doubts that the day would ever come. Jerry would pick up a photo of his granddaughter and say, "This is your guarantee I'm leaving." [Laughter]

Jerry, I know your wife, Francie, and your children, Paul and Leila, and your granddaughter, Sophia, are really glad to have you back.

When Jerry Bremer greeted visitors at his office in Baghdad, he always began, "Welcome to free Iraq." Jerry, Iraq is free today, and you helped make it so. And a free Iraq will help make generations of Americans more secure. Our Nation will always be grateful to Ambassador Jerry Bremer and his good work.

These three men symbolize the nobility of public service, the good character of our country, and the good influence of America on the world.

Now it is my honor to present the Presidential Medal of Freedom, and I ask the military aide to read the citations.

[At this point, Maj. Steven T. Fischer, USA, Army Military Aide to the President, read the citations, and the President presented the medals.]

The President. Thank you all for coming. Laura and I now invite you for a reception here to honor our honorees.

Congratulations.

NOTE: The President spoke at 11:30 a.m. in the East Room at the White House.

Memorandum on Waiver of Restrictions on Assistance to the Republic of Uzbekistan Under the Cooperative Threat Reduction Act of 1993 and Title V of the FREEDOM Support Act

December 14, 2004

Presidential Determination No. 2005-13

Memorandum for the Secretary of State

Subject: Waiver of Restrictions on Assistance to the Republic of Uzbekistan under the Cooperative Threat Reduction Act of 1993 and Title V of the FREEDOM Support Act

Consistent with the authority vested in me by section 1306 of the National Defense Authorization Act for Fiscal Year 2003 (Public Law 107-314), I hereby certify that waiving the restrictions contained in subsection (d) of section 1203 of the Cooperative Threat Reduction Act of 1993 (22 U.S.C. 5952), as amended, and the requirements contained in section 502 of the FREEDOM Support Act (22 U.S.C. 5852) during Fiscal Year 2005 with respect to the Republic of Uzbekistan is important to the national security interests of the United States.

You are authorized and directed to transmit to the Congress this certification and the associated report (including its classified annex) that has been prepared by my Administration consistent with section 1306(b) of Public Law 107-314. You are further authorized and directed to arrange for the publication of this certification in the *Federal Register*.

George W. Bush

Remarks Following Discussions With Prime Minister Silvio Berlusconi of Italy and an Exchange With Reporters

December 15, 2004

President Bush. There will be two opening statements, and then we'll take two questions per side. Thank you for coming.

Silvio, it's great to welcome you back to our country. I think it's fitting that one of

the first world leaders to have visited after our elections is my friend Silvio Berlusconi. He is a close personal friend. He is a friend of the United States of America.

I told the Prime Minister I look forward to working with him over the next 4 years to make the world a better place for all, that I've got work to do in Europe. He gave me some very good advice about my upcoming trip. But he always gives me good advice, and I'm proud to have his advice.

We talked about peace between Israel and the Palestinian Authority. I think there's a very good chance that we can achieve that peace. I look forward to working toward that end. The Prime Minister had good advice on that subject as well.

He expressed his concerns about the relationship between the dollar and the euro. I told him we're going to take this issue on seriously with the Congress. The best thing that we can do from the executive branch of Government in America is to work with Congress to deal with our deficits. One deficit is a short-term budget deficit. Another deficit is the unfunded liabilities that come with Social Security and some of the health programs for the elderly. I told the Prime Minister that Social Security reform will be at the top of my agenda. I campaigned on the issue. I look forward to working with Members of Congress to resolve this long-term, unfunded issue so that the world financiers can take comfort in the fact that this Government will address one part of the budget deficit. There's a trade deficit. That's easy to resolve; people can buy more United States products if they're worried about the trade deficit.

But we've had a good visit. And I'm proud my friend is here.

And finally, we discussed our mutual desire to spread freedom and peace. I want to thank the Prime Minister for his understanding about the need for the free world to succeed in Afghanistan and Iraq. He's the kind of man, when he gives you his word, he keeps his word, which is the sign of an impressive, strong leader.

So thank you for coming.

Prime Minister Berlusconi. Thank you, Mr. President, for your kind words. Thank

you for the friendship you showed to me, to my Government, and my country.

And my behavior and the behavior of my Government is based on the fact that we share the same values. We appreciate strongly the fact that America has taken on the responsibility of defending and spreading peace and democracy all over the world. And we appreciate the fact the United States do that with sacrifices and a lot of suffering. So we fully share the work carried out by the American administration. And the political agenda, the program which has been announced for the next 4 years, is something we fully agree on.

We share the same opinion as to the need of reforming the United Nations in order to make it an institution which will be able to tackle the problems affecting this century and the multilateralism which has to take into account results to be achieved and complete facts. We agree on the fact that we have to continue the fight and the war on terror together. And we agreed on the fact that it is now the appropriate time to solve the Middle East issue.

And in particular, I agree on the way in which we keep on and carry on our relationship. It's a very frank, direct, straightforward, and spontaneous way, full of truth. And I think this was the deepest reason why President Bush succeeded so much, especially vis-a-vis the Americans. It is not politics. There is no politics which makes people say things which people do not believe in or think. President Bush tells me and all of the others always what's in his mind. And it is very positive that "yes" means really "yes" to him and "no" means "no." And I want to reassure President Bush that we'll do any possible effort to strengthen the relationship between the United States of America and Europe. Because I agree with him: The West is only one.

President Bush. Welcome. Anybody representing AP here? Oh, you are, Terry [Terence Hunt, Associated Press]. Go ahead.

Upcoming Iraqi Elections

Q. Iraq's Defense Minister says that Iran and Syrian intelligence agents are supporting Al Zarqawi and that Iran is trying to sway the January 30 elections. Do you believe

these charges are accurate, sir? And is there anything the United States can do besides simply telling Iran and Syria to refrain?

President Bush. We have made it very clear to the countries in the neighborhood, including the two you mentioned, that we expect there to be help in establishing a society in which people are able to elect their leaders and that we expect people to work with the Iraqi Interim Government to enforce border, to stop the flow of people and money that aim to help these terrorists. We've made that very clear, and we'll continue to make it clear.

We have made it clear that for the good of the area, that there ought to be a peaceful country where the different religions can come together under the TAL which has been passed, the go-by for what a new constitution should look like. And we will continue to make it clear to both Syria and Iran that—as will other nations in our coalition, including our friend the Italians—that meddling in the internal affairs of Iraq is not in their interests.

You want to call on somebody from the Italian press?

[At this point, an interpreter translated President Bush's remarks into Italian.]

The President. I'll be more polite to the translator from now on. *[Laughter]* Want to call on somebody from the—

Dollar-Euro Relationship

Q. You said you've discussed the euro-dollar ratio, and therefore, you discussed your relations between the two economic blocs. Can you say something more in detail about what you talked about and if there is, in the future, the possibility of a better balance between the euro and the dollar in terms of the exchange rate?

The President. The policy of my Government is a strong dollar policy.

Interpreter. I'm sorry, sir. I didn't hear you. *[Laughter]*

The President. She might not agree with it. *[Laughter]* We believe that the markets should make the decision about the relationship between the dollar and the euro. Therefore, to the extent that the Federal Government is involved with strengthening—mak-

ing the conditions such that a strong dollar will emerge, we'll do everything we can in the upcoming legislative session to send a signal to the markets that we'll deal with our deficits, which, hopefully, will cause people to want to buy dollars.

Independently, the Federal Reserve, under the leadership of Alan Greenspan, raised the interest rates yet again, a signal to the world markets that the Chairman is also aware of the relative currency valuations between the euro and the dollar.

I'm not that generous yet. We love April *[April Ryan, American Urban Radio Networks]*, but there's a limited number of questions.

Holland *[Steve Holland, Reuters]*.

Social Security Reform

Q. Sir, you're going to this conference today. Some Democrats call the private accounts in Social Security a risky scheme. What happens if people lose money on their investments? Does the Government bail them out?

President Bush. Look, Steve, this is the issue about addressing the long-term liability issue. This is the Social Security issue. Like many nations in Europe, there's an issue with Social Security systems. Baby boomers are getting ready to retire, and there's not enough workers to sustain that which—that which has been promised. And so the fundamental question I placed before the Congress is: We have a problem; let's work together to deal with it.

I believe there's a consensus beginning to grow, that members of both political parties understand now is the time to address this problem. I believe one way to help make sure the system meets the needs of a younger generation is to allow younger workers to take some of their own taxes and invest in a personal savings account—under certain conditions. The people in our country have heard this notion, so-called “risky scheme” adjectives in the 2000 campaign and the 2004 campaign. I took the message to them. They realize, like I realize, now is the time to deal with the problem. And I look forward to working with both members—members of both parties to solve this problem.

But let me just give you one—this is a chance now to kind of start laying the groundwork for future questions. The great desire for people in Congress is for me to negotiate with myself. You notice I said the great desire for Members of Congress, not members of the press. And therefore, I will continue to articulate principles that I think are important and reach out to members of both parties to fashion a plan that solves the problem.

Prime Minister Berlusconi. The problem of Social Security is common to all of the Western world. And this is, luckily, due to the fact that we live longer because of the better standard of living and because of the discoveries made by medicine. In Europe, all governments are dealing with reforming Social Security systems, but one thing is for sure, that it needs to be done. That is, we have to extend the working life of the people.

I'm one of the strongest believers in that, because at my age, I'm convinced that one—at my age, you can keep on working pretty well. [Laughter] And you can tap on the experience you've kind of piled up over your working life.

President Bush. You look like a baby boomer. [Laughter]

Prime Minister Berlusconi. I thank you very much. It's medicine as well. Also credit medicine. [Laughter]

President Bush. Final question. Do you want to call on somebody?

Prime Minister Berlusconi. I want to say something. We have already reformed our Social Security system in Italy. And this is one of the 24 reforms through which we are modernizing our country. And I've just said to President Bush that at the end of its term, my Government will have completed many more reforms than all of the previous governments in the Italian Republic.

President Bush. Very good.

A final question from the Italian press?

Proposed Joint Italian-U.S. Helicopter Production

Q. Did you debate the possibility that the President of the United States will soon fly on Italian helicopters? [Laughter]

President Bush. No, I appreciate that—

Prime Minister Berlusconi. The Italian helicopters almost completely made, manufactured, in the United States.

President Bush. With U.S. parts. I've got the message, yes. [Laughter]

Prime Minister Berlusconi. I can only say that I've been flying these helicopters for 30 years, and I'm still here.

President Bush. And you never crashed. [Laughter] That's a good start. [Laughter]

The Prime Minister brought up the issue. I'm very familiar with it. As you know, we delayed a decision until later on in the spring. I'm very aware of the joint venture. I understand the nature of U.S. jobs that will be created in this venture, and I assured him the venture will be treated fairly.

Thank you for coming. Happy holidays. Happy holidays.

NOTE: The President spoke at 11:57 a.m. in the Oval Office at the White House. A reporter referred to Defense Minister Hazim Qutran al-Khuzai al-Shalan of the Iraqi Interim Government; and senior Al Qaida associate Abu Musab Al Zarqawi. Prime Minister Berlusconi spoke in Italian, and his remarks were translated by an interpreter.

Remarks in a Panel Discussion on the High Cost of Lawsuit Abuse at the White House Conference on the Economy

December 15, 2004

The President. Listen, thank you all for coming. I've just come off a campaign—[laughter]—and spent a great deal of time talking with the American people about how to make sure America is the best place in the world to do business. And there was a lot of discussion in the course of the last couple of months about what's the best philosophy to make sure that jobs are created here, that the entrepreneurial environment is strong, that small businesses can flourish but, most importantly, that people find jobs close to home.

And one of the things that I talked about was making sure that the environment for risking capital was conducive for job creation. And I tried to say that as plainly as I could. And one issue that I talked about, to make

sure that costs were reasonable and that the cost of capital was reasonable, was legal reform, that the cost of frivolous lawsuits, in some cases, make it prohibitively expensive for a small business to stay in business or for a doctor to practice medicine, in which case, it means the health care costs of a job provider or job creator has escalated or is escalating.

I talked about the competitive advantage that we must have in America if we expect jobs to stay here. The cost of lawsuits, relative to countries that we compete against, are high. In other words, the cost of litigation in America makes it more difficult for us to compete with nations in Europe, for example.

And so I want to thank our panelists for coming today to help add some expertise to this notion that if we can achieve legal reform in America, it'll make it a better place for people to either start a business and/or find work.

Now, there's much more to a comprehensive economic expansion program than just legal reform, but a cornerstone of any good program is legal reform. And there's a practical aspect to our discussions today, because I want the people who get to decide whether we're having legal reform to hear from experts, and that would be Members of the House and Senate from both sides of the aisle. I am here to not only thank our panelists but to make it clear as I possibly can that I intend to take a legislative package to Congress which says we expect the House and the Senate to pass meaningful liability reform on asbestos, on class action, and medical liability.

I want to thank my good friend Don Evans, who has served so well as the Secretary of Commerce. As you know, he has made the decision to go back to the State of Texas. I'm glad my departure was delayed by 4 years. *[Laughter]*

Secretary Evans. So am I. *[Laughter]*

The President. But I do want to thank him for serving so admirably, and I want to thank you for hosting this event.

Secretary Evans. Mr. President, thank you so much. We have a very distinguished panel but a far-reaching panel. As you know, the issue of lawsuit abuse has many, many

facets to it. And so I'm delighted that we have been able to assemble a number of people that look at it from an economist perspective, an academia perspective, a small-business perspective, a health care perspective, because there's many, many issues that relate to lawsuit abuse in this country.

I want to thank you, Mr. President, for your leadership on this particular matter, your attention you've given to it. And I'm one of the—only one of those out there has—that have seen your focus on it for over 10 years. I remember full well in 1993, when you were running for Governor of the State of Texas, it was one of the very top issues on your agenda. And after becoming Governor, you led and you made a difference in that State. And because of the difference you've made in tort reform in the State of Texas, the State of Texas economy is a stronger economy than it otherwise would have been. And you're bringing that same leadership here to Washington, DC, and the Federal Government, because certainly there's things we can do in Federal Government that will create a better environment for entrepreneurs and small-business owners to create jobs and grow our economy, and it had to do with legal reform and lawsuit reform.

Mr. President, you mentioned that I have served here for some 4 years as Secretary of Commerce, and one of the things I must say: One, it was an honor to serve the American people, and it certainly has been under your leadership. But as I've traveled across America, the one thing that I hear time and time again among manufacturers as well as service companies is the burdens of lawsuits, the burdens of junk and frivolous lawsuits and how they continue to weaken our economy and make it harder for us to compete domestically and internationally and not easier for us to compete domestically and internationally.

And that's the one question we ought to always ask ourselves when we make decisions in this town. Does this make it harder for us to compete and create jobs in America domestically, or does it make it easier for us to compete? So everything we do should say it makes it easier to compete and create jobs. And what lawsuit abuse has done is it not

only threatens our competitiveness and innovation in the world, but it also—it harms our health care system; it raises the cost of health care in this country; it stifles innovation, et cetera.

Last year, our Department went around the country, and we held roundtable discussions—some small- and medium-sized manufacturers all across America. And we heard this same message, with an incredible amount of passion and energy, not just from the manufacturers but also service companies as well, and that is how important it is to deal with lawsuit reform and deal with it now, because it's going to impact the creation of jobs in this country for generations to come. It's not only about today's economy, but it's the economy for your children and your grandchildren. And it's time to deal with it now.

Mr. President, you referred to some of the cost of tort reform or tort costs in this country. It represents over 2 percent of our gross domestic product, over \$250 billion in tort costs into our economy. That is a lot more than most of our—it in fact, it is more, as a percentage, as well as absolute terms, of those that we compete with around the world. The manufacturing sector bears a disproportionate share of that, about 4½ percent. And so when you think of the tort cost in manufacturing products in this country, then compare it with wages and salaries in the manufacturing sector—17½ percent of the cost of labor and wages goes—is part of the cost, where only—where 4½ percent is tort claims. So you can see how tort costs are a very significant price, a cost in everything that we purchase in this country.

I was in Missouri this last year, and I had a chance to really see up close and personal how it was impacting the health care industry. I talked to a David Carpenter, who is the CEO of North Kansas City Hospital, and what he told me was that there had been 30 doctors that had moved from Missouri to Kansas because Kansas had, indeed, passed tort reform and had put some caps in place. So you see it happening all across America, where doctors are moving around and trying to find a more friendly environment.

Lawsuit abuse is just simply piling up cost on the backs of not just companies but the

American people. I like to call it a tort tax. If you take the total cost of tort claims and judgments in our country and divide it by the number of people in the country, it's a tort tax of about \$809 per capita. So in everything that we purchase, everything that we buy, in there someplace is a tort tax or a tort cost. And so it's going to continue to drive up the cost of automobiles, groceries that we purchase, work boots that we purchase, whatever it is we purchase. It's going to continue to drive up those costs if we don't do something about it, and it's also going to continue to stifle innovation and the entrepreneurial spirit.

And what we ought to be doing is figuring out ways to lower risk and increase rewards, and that's exactly the opposite of what a junk and frivolous lawsuit does in a society. What they do is they increase risk and lower results so—and lower rewards.

So for us to continue to be the most competitive economy in the world, the most innovative economy in the world, this is an issue that we must deal with and we must deal with it now.

Again, I'm delighted to have this outstanding panel here to discuss this subject, important subject and issue, and I would like to begin by calling on Professor George Priest, who is the professor of Yale University, holds a John M. Olin Professor of Law chair there. George will take us through some of the modern expansion of tort liability in America and discuss some of the reform possibilities that we ought to be considering.

Professor.

George Priest. Thank you, Mr. Secretary. Let me give you a little history about the expansion of liability. This problem of lawsuit abuse and the problem of excessive litigation is really pretty much a modern problem. Prior to the 1960s, tort law was really a backwater. It was dominated by principles of corrective justice; litigation was minuscule. But ideas began to change, and there came to be a conception that developed that tort law could be turned into an instrument of public policy according to which tort judgments, damage judgments, could be used to internalize costs, the harms the people had suffered, to persons and to the companies that had caused them.

And so the idea was, by internalizing these costs, there would be incentives created to make products safer, to make other services safer, and also to provide a form of insurance for individuals that had suffered some type of harm.

The other advantage, or the thought that there was an advantage, was that this could be done universally. That is, safety regulation, direct safety regulation by agencies, applies only in a very few number of industries. Using tort law as a regulatory mechanism, on the other hand, could be applied to all activities in a society, and so it could become universal. And based upon this conception, courts began to expand liability. They began first in the products liability field but then it expanded to other areas more generally.

Now, I believe that this conception, this idea of internalizing costs, has had some beneficial features, has had some beneficial effects. That is, I think that it did enhance safety and reduce harm over some range. But the problem that has arisen—and it really is a problem that arose several decades ago—is that there are limits to the extent to which tort law and litigation can be effective in increasing safety and reducing harms. But the problem is that this conception of internalizing costs doesn't recognize those limits, and so even though those limits have been exceeded, courts have continued to expand liability in area after area. And when liability is expanded beyond the point where it can really effectively encourage greater safety, where—beyond the point where these harms can practicably be reduced, there are two forms of harmful societal effects that result.

The first is—and it's the one you were talking about, Mr. Secretary—that the cost of litigation has to be passed on in the prices of products and services. Exactly as you say, it's a tax. And it's a tax that every citizen has and every consumer has to pay on every product and service that they buy. Just to give an example—and you mentioned this too—in today's litigation environment, auto manufacturers are basically absolutely liable any time there's a serious accident. They will always be sued, and they will always have to settle the case in some way. And what does that mean? That means that auto prices have to increase. That litigation has no effect on

safety. It has no effect on the redesign of automobiles. We have an Agency, NHTSA, that is charged with monitoring auto safety. The litigation has no effect whatsoever. It simply adds to the costs. And adding to the costs hurts most severely the low-income in the society, because they're the least able to pay these costs and they're the ones that get the least return. Even if they do litigate, the damages they receive are lower than those of other citizens.

Now, in other industries, however, the results are even worse. That is, in some industries, liability has extended—has been extended to such an extent that the affected parties begin to make investments that are unproductive, that are not necessary, in order to try and shield themselves from liability. The medical industry is a good example. Defensive medicine is, in essence, counterproductive, and it's an investment that's made to try and ward off litigation for no useful purpose.

And the consequences of this whole—of the regime that we've created here is a legal system in which litigation is available with respect to every activity of the society. And worse, I think—and Phil Howard will talk about this too—we have been developing a culture in this society, in this country in which it's believed that any conceivable social problem can be solved by litigation. And so we have litigation trying to deal with every conceivable social issue.

Now, what can be done about it? Well, I think the most fundamental reforms have to come from the courts. It's the courts that created this problem, and it has to come from the courts in redefining liability rules. But what that means is it's extremely important to appoint or elect judges who are committed to tort reform. Now, what can—but there are other things that could be done, and there are some things that could be done at the congressional level, and I think the three reforms that the President mentioned are important reforms.

We need class action reform. The rules that were developed—and they were developed in the 1960s—with the thought of controlling class actions are quaint today, and there are many courtrooms in which there are no controls on class actions whatsoever.

Now, the “Class Action Fairness Act” takes a step. What it does is push these class actions into the Federal courts where there is going to be some more control. With all respect, it’s not a solution. It’s going to help. It’s a step that I think is a small step, but it’s important. It’s an important step.

I think Federal reform in particular industries, such as in the medical industry, a reform of medical malpractice, is important too, and it’s a promising reform because all of us need doctors and all of us know that we have to control health costs. And all of us know too and can see easily what the harmful effects of expanding liability against needed medical services is. So medical malpractice reform is important as well.

Third—and you mentioned this, Mr. President, and I agree entirely—Congress can attempt to do something about asbestos litigation. Asbestos litigation is an extraordinary phenomenon. I’ve been studying it the last couple of years. It’s just extraordinary. Everybody knows that there are hundreds of thousands of cases that have been filed and that there are millions more that are going to be filed. But I think few know exactly what kinds of cases these are. And let me just give you one example, and it’s illustrative of what this problem is.

A short time ago in California, a man recovered 4.5 million against an asbestos—a company that had used asbestos. And the only exposure this man could document, the only time he had ever been exposed to asbestos, was one day when he was the child when his mother and grandfather took him to their church, whose ceiling was being remodeled. That was the entire exposure. One day of asbestos, and he recovers 4.5 million. This asbestos litigation is a vast system of redistribution within the society. And indeed, by the standards of that case, every American is a victim of asbestos. But I certainly would say this: It is not a sign of a healthy society when every citizen can qualify as a litigant and file suit.

So I think there is an important need for legislation in many different areas to deal with this problem of excessive litigation. These reforms are—the three reforms that the President has talked about are going to be helpful. I think, again, they are small

steps, but they’re steps in the right direction, and they’re steps that it’s important to take and that every American should support.

Thank you.

The President. Nice job.

Secretary Evans. Yes, excellent job. Professor, thank you very much, for laying that out.

Speaking about asbestos, our next panelist is somebody who is personally being impacted by asbestos litigation, as are his 18 employees and the families that they’re responsible for. And so, Mike, an entrepreneur from Monroe, Louisiana, who runs a company there—why don’t you give us your perspective of asbestos litigation as it relates to your personal situation and company.

Mike Carter. Well, I have a business back in Monroe, Louisiana, Monroe Rubber and Gasket. And hopefully, I can be a small voice—or a big voice—for a lot of companies across the country that probably are in the same condition I am.

Probably about 3 years ago, I started receiving lawsuits for asbestos, and today I guess I’ve been inundated probably with about upwards of 100 now. And we’re a small company. We can’t legally fight these battles, and what’s happened is, over time, some of these are being settled out of court. We’ve got an insurance carrier that, back at that time, carried our insurance and helped us litigate some of this stuff over time. But the problem is, is this is going to end very soon. We’ve got about a million dollar cap. And if we have to get involved in a suit in court and we get a verdict handed to us, it’s a matter of us locking our doors.

But these things have been coming to us and coming to us, these lawsuits, as it is today. I’ve been to Washington on a couple of occasions, talking to our Senators from the State. We tried to get something passed within the State and failed to do that. But that’s not stopping the lawsuits. We’re neither a manufacturer nor an end user. All we’ve ever done and the thing we’re guilty of is buying what we thought over the years was a safe product and reselling it to an end user customer who asked for the product by name. And now, because all of the bigger corporations and the manufacturers have either gone bankrupt or filed—or gone out of business,

now they're going to that next tier of companies, which is people like us, and they're pulling us into this trap.

And we can't afford to fight this. The last couple of times I've been to Washington, I pleaded with the people I thought could get something done, and I told them this may be the last time I'm here. I don't know how long this will go on. I've got probably seven or eight court dockets this next year, and if I have to go to these—that's not to say I'll ever be back again. And hopefully, this is going to be an opportunity for me, like I say, to be just a voice for the small business across America, and then hopefully, we can get something done this year.

It's just—it's unfortunate that I've had to spend hundreds of hours of my time away from the business trying to fight this stuff, trying to get somebody to listen and to make a difference with what we're doing. All we're trying to do is run an honest business, and we've done that for so many years, and it's just a shame that something like this can take all that away from you. And after we're gone, there's really nobody out there to hear you anymore.

And it's just becoming increasingly difficult to do business. And as we go out now and try to buy products from other companies, they tend to see our name on the—I guess the Bradstreet—Dunn & Bradstreet, as having all these suits against us. They don't want to open us any lines of credit. We've reduced the amount of employees. We're just not rehiring, is what we're not doing. We've had probably five or six more at one point; we've got about 17 now. And we're trying to grow our business into other States. We can't do that because we just don't know what direction this is going to turn, and we don't want to get more in the pot now than we have. So it's affecting us in a way that we're not able to grow any more. We just—it's just a continuous fight, and we can't do anything. They just keep coming; the lawsuits keep coming.

And we're getting suits from people—the ones we're getting them from are end users, the mills, the chemical plants, the paper industry, that worked in those particular plants back years ago. And these trial lawyers, they'll come, and they'll set up a little hub and have

these people come in—and do the advertising prior to them getting there—have them come in, run a quick test on them. If they show anything in their lungs—which any of us could have something on our lung, be it from smoking, be it from pollution, whatever it is—but they all of a sudden qualify to be in the suit.

And as this stuff continues to grow like this, it's—they will couple one or two sick people with 10 or 15 nonsick people and run them through the courts. And you know, in the South, we're known to have very sympathetic juries. And don't get me wrong, I'm very—extremely sympathetic to those individuals that are sick, and I think they need to be taken care of. But the problem is, 90 percent of the people filing suits today are nonsick individuals. They've just been exposed. And I think everybody in this room has been exposed to asbestos if you've ever walked through a school hallway or you've ever been anywhere. I mean, it's just the way it is. But to allow this to happen, those 90 percent of the people, nonsick that are getting this money right now, over the 10 percent of the people are not getting it, and they're the ones that deserve it.

But then again, I think those people should be responsible that created this. And we, as just an honest-ran business, have not created this problem. And the gaskets and the things I've sold to these plants—we've had people come in and actually gauge us cutting the gasket out of the sheet, and there's no harmful asbestos dust or nothing in the air. But because during that timeframe we had asbestos beside our name, they're coming after us.

Secretary Evans. Mike, thank you very much. I appreciate your story.

The President. Let me make a comment on that. First of all, justice ought to be fair. And those who have hurt ought to have their day in—those who have been hurt ought to have their day in court. But a judicial system run amok is one that makes it really hard for small businesses to stay in business. And I appreciate you sharing your story with us. It's a—frankly, a painful tale to listen to because—what makes it even more painful, there's a lot of people like you.

Most new jobs in America are created by small-business owners. And when you hear

a small-business owner talking like that, and he says we got a problem we'd better address now before it's too late—thank you for sharing it with us.

Mr. Carter. Thank you.

Secretary Evans. Yes, it's painful not only for you but the 18 employees and their families that you're responsible for. And we hear your story.

Here's a man that's responsible for about 350,000 employees. And Bob Nardelli of Home Depot, why don't you give everyone kind of your insight as to the lawsuit abuse, the impact on your employees as well as on your company.

Bob Nardelli. Well, thanks. First of all, Mr. President, thank you for this opportunity—Secretary Evans—to participate on what I think is probably the most important panel on the high cost of lawsuit abuse in the overall economic conference that, Mr. President, you've called together the next couple of days.

I think what all of us in this room probably share—I think one of the things that we really want to try to make clear, and I'm going to reinforce in some of my comments what we've already heard—is that we're really not asking to be resolved—or absolved of our responsibility. All we're asking for is fairness, Mr. President, just as you said.

Lawsuit abuse is not a talking point anymore. I think it's a sore point for all of us and one that has to be addressed. Let me just put it in perspective, Mr. Secretary. Our customers, our 350,000 associates, as you've mentioned, and our supplier base, our shareholders of the company that I run and the company I love, are really being hurt every day. They're being hurt every day by a legal system, quite honestly, that's abusive. It's abusive to small businesses and big businesses alike.

I think there's excessive and unreasonable awards each and every day, that our taxpayers are paying more, Americans are being denied, Mr. Secretary, as you said, the essentials of goods and services and, perhaps most importantly, good paying jobs, wages, slowing investment growth, which is really dampening the entrepreneurial spirit of our country.

Let me give you an example. I like to think facts are friendly. The U.S. tort system basically costs every American about \$2,400 a year, based on a recent survey that we looked at. Let me put that in Home Depot terms. That would allow every family to buy a kitchen and a complete home of appliances, refrigerators, washers, dryers, range, micro-waves, et cetera.

So when I look at this issue, I basically see about three pressure points that I want to talk about today. First, it's the hijacking in broad daylight that the tort system calls the class action lawsuit. The second is the seemingly endless story of excessive awards in asbestos litigation. We just heard Mike talk about that. And third, it is the excessive awards in medical liability suits. Quite honestly, it won't be long before we see a line item on every doctor's bill that's handed out in this country for litigation.

I think what all three of these have in common, unfortunately, is that there's a fair and reasonable solution in hand just waiting for implementation. That's what makes it so maddening, I think, to all of us.

Let me expand. The class action dilemma is probably a good place to start. It—since it's a trial bar who really reaps the reward. How many of you in this room have received a check for \$1.18 in recognition for your participation in a class action suit that you didn't even know you were part of? And what really happens is the millions of dollars go to the lawyers. So is justice really being served, is the question. In fact, I think only 20 cents of each dollar actually goes to the claimants for real economic damages and lost wages and medical expense.

So what you have today is business on one side, and you've got the trial lawyers on the other side. And you have the worst combination of all: You've got deep pockets colliding with shallow principles. *[Laughter]*

Let me make another point, if I can, on this magnet court system. There's a place like Madison County, Illinois, and I think a lot of us know of that. There's been a 5000 percent increase, 5000 percent increase in the number of class action filings since 1998. You know, the issue at hand may have nothing to do with anybody in that county or that

community, but the fact is, it hasn't stopped 49 other States from filing into that county.

So we really have, you know, quite honestly, I like to use the term, it's a "speed trap" for American civil litigation. I think that's kind of what we would classify it. So if we move, I think, as George said, our class actions into the Federal courts, with standard rules from coast to coast, we have a chance at getting things a little more fair, a little closer to fairness. And people who have been hurt will certainly have the ability to get damages and get recovery, but in a much more fair environment, less abusive environment.

So if we continue to leave these issues, as I see it, of national importance to the whims of the greedy, Mr. President, instead of the needy, we're going to continue to have a huge price in this country to pay for abusive litigation.

Let me kind of close out and make a few final comments. That's why I think that this "Class Action Reform Act" is so important to be passed. I think it's great that we've had a lot of bipartisan support. I think what we need is some bipartisan action, Mr. President, as you said in your opening comments. Also, I would take this asbestos litigation—and we would classify it as the gift that just keeps on giving to trial lawyers, 30 years and no end in sight. According to RAND Institute, 70 billion has been spent on asbestos litigation, 200,000 claims have been filed against 8,400 companies since 2002. So we see that continuing to grow.

The asbestos war, if you will, seems to be waged on—67 American companies have been put into bankruptcy. Now, here's the way I kind of like to look at that, is, while the lawyers are attacking corporate America, it's corporate Americans that are suffering. That's the issue. And we've had 60,000 corporate American jobs eliminated as a result of that.

So let me just conclude, Mr. President, and I really think that something has to be done. There's no better person to do that than you, in this term, in your second term. And we're tickled to death that your exodus was postponed for 4 years, let me say that. *[Laughter]* A great deal has been said about this issue, but I think the time is now. I think the emotion is high, and I'm here, Mr. Presi-

dent, to join you in leading the charge for relief from what I'll call trial lawyer tax.

Thank you for the opportunity.

The President. Good job.

Secretary Evans. Thank you, Bob. Bob, thank you very much. I think you're right. And when you talk about lawyers being on one side and business being on the other, and it's the families that are paying the price, the hard-working Americans. They're the ones caught in the middle. They don't always see it because they don't see the line item. Maybe it's on a medical bill. Maybe it ought to be on a lawnmower someday. What's the additional cost of a lawnmower because of tort costs.

Hilda, thank you so much for being here. Hilda Bankston. She's got a wonderful story to—it's a heartbreaking story to tell, but it's certainly a very moving story about the drugstore that she and her husband built in Fayette, Mississippi.

Hilda Bankston. Yes, sir. Thank you for the opportunity, Mr. Secretary.

My name is Hilda Bankston. I live in Fayette, Mississippi. I came to the United States from Guatemala in 1958. I met my husband, Navy Seaman 1st Class Mitchell Bankston while I was in the Marine Corps. When we got married, we fulfilled our lifetime dream of buying and operating a pharmacy. We worked hard, and my husband built a solid reputation as a caring and honest pharmacist in Fayette.

But one day, lawyers who were looking for—to strike it rich in Jefferson County, shook our world and dreams to their foundation. Bankston Drugstore was named as a defendant in a national mass action lawsuit, putting Jefferson County against two of the biggest manufacturers' drug companies, the manufacturers of Fen-Phen, FDA drug approved for weight loss. Though Mississippi does not allow for class action lawsuits, it does allow for consolidation of lawsuits in mass action.

Since ours was the only drugstore in Jefferson County and had filled prescriptions for Fen-Phen, the plaintiffs' lawyers could keep the case in a place already known for its lawsuit-friendly environment. Overnight, our life's work had gone from serving the public's health to becoming a means to an end for

trial lawyers to cash in on money-making class action lawsuits.

Three weeks after being named in the first lawsuit, my husband of 35 years, who was 58 years old and in good health, died of a massive heart attack. Since then, we have been named in more than 100 mass actions against national pharmaceutical companies over a variety of different drugs.

I had to sell the pharmacy, but I still spend countless hours retrieving records for plaintiffs' lawyers and getting dragged into court again and again to testify. Attorneys handling these claims compare their actions to winning the lottery.

The lawsuit frenzy has hurt my family, my community, and the State of Mississippi. The county's reputation has driven liability insurance rates through the roof, and businesses no longer locate there for fear of litigation. No small business should have to endure the nightmare I have experienced. I'm not a lawyer, but I know something is wrong with our legal system when innocent bystanders are abused in the way I was. Please, pass action to reform legislation to help fix our lawsuit system before more small-business owners and their families will get hurt.

Thank you, Mr. President. Thank you, Mr. Secretary.

Secretary Evans. Thank you, Hilda, very, very much.

Philip Howard, partner with Covington & Burling, author of the book "The Death of Common Sense"—Philip will provide an overview of the medical liability explosion in our economy.

Philip K. Howard. Thank you, Mr. Secretary, and I really appreciate the open-mindedness of you and the President in allowing a practicing lawyer to join your panel. [Laughter]

We forget sometimes why law is the foundation of freedom, and it is because it's supposed to be reliable and people can count on it in their daily lives. They make some choices in a free country to move forward with their lives, whether it's to make investments or deal with others or volunteer on the playgrounds or in Little League. Law is supposed to be there to affirmatively defend reasonable conduct.

The law in this country is no longer reliable, and the cost of it, I submit, is far greater than anything any of you have talked about today.

And so, let's go to medical liability. We have heard, and you are going to hear again how horrible it is when our best trained professionals, physicians, get driven out of business. One out of seven obstetricians in this country are no longer practicing obstetrics. One out of four people in Pennsylvania last year had to change their doctors because they either quit or moved out of the State. That's because of the direct cost of litigation in this country. But that's only the beginning. The cost of health care is out of control. We can't even talk about containing the cost, but who's going to not order an MRI that somebody demands if you might get sued for \$10 million for doing it.

This group, Common Good, that I founded a couple of years ago hired Harris Poll to survey all the doctors. Four out of five said that they admitted to ordering tests that they didn't think were needed. It is now part of the practice to waste money. We can't afford that. We've got 45 million people who don't have insurance. We have—and more every day because small businesses can't afford it. You can't contain costs, you can't provide health care for everybody until you have a solid foundation of justice that people can count on.

Quality—all of the quality experts have joined our coalition because their studies show them that the quality of health care in this country has suffered, and it has suffered because doctors and nurses no longer feel comfortable speaking up. They're afraid they may be taking responsibility.

So, you get—and at the same hospital where you get miracle cures, you'll have some mistake in a prescription, where somebody gets 500 milligrams instead of 5 milligrams. Studies are all—tragedies occur because people are afraid to speak up because they don't trust the system of justice. It's defended on the basis that it holds bad doctors accountable. Well, in fact, it does just the opposite. The current system of law—and it's true with unreliable law, generally—favors whoever is in the wrong.

And so if you're a doctor—if there's a doctor who is no good—and every hospital has this story—you try to fire them. What do they do? They hire a lawyer. They sue, or they threaten to sue. And the typical result is that they're allowed to keep practicing because people don't want to go through the 5 years of litigation for it to happen.

So what is needed here is far more than just—what is needed is to restore reliability. We need the rule of law back again. And I subscribe to everything that George—my friend George Priest said over there and the other panelists as well. We need to look at this not as a problem of just of business or just of doctors; we need to look at it as a problem for the whole society and what it means to live under the rule of law in a free country.

Thank you.

The President. Good job.

Secretary Evans. Thank you. Excellent job, Howard.

Barb Coen, Andy Kazar, both of Generations Women's Health Care out of Norton, Ohio. We certainly appreciate you being here to talk about your story. Barb and Andy will explain how medical liability crisis has caused, one, Barb to quit delivering babies, and the other, Andy, to lose her doctor.

Barb.

Dr. Barbara L. Coen. Thank you, Mr. President and Mr. Secretary, for the opportunity to be here today. I appreciate the fact, Mr. President, you've kept your promise to help physicians take better care of patients by getting rid of the medical liability problem that we have in this country.

I am an obstetrician/gynecologist who can longer call herself an obstetrician. Three years ago, my partner, Dr. Susan Clark, and I started a small practice called Generations Women's Health Care in Norton, Ohio. We had the help of Barberton Citizen's Hospital for 2 years. At the end of 2 years, we were to be independent from the hospital and be operating on our own. At that time, we decided to look for medical liability insurance and were stunned to find that our premiums were going from \$60,000 for our current space malpractice to \$118,000 for claims-made liability.

At that time, we had 110 pregnant women in the practice and had 3 weeks to tell them they they had to find a new physician. Anyone who has ever had a baby understands the relationship between the obstetrician and that patient is so special. They're trusting you with their most precious possession, the life of that child. And it was awful to call those patients and tell them we couldn't take care of them. I got notes saying, "I promise I won't sue you. Please deliver my baby." It was absolutely heartbreaking. Some people were due the next week. It's an awful system that needs to be reformed.

The things that bother me the most about the medical liability system in this country right now is the Trial Lawyers Association will come out and tell you that medical liability is only 1 to 2 percent of health care costs every year. Well, when health care costs are \$1.2 trillion, I think if you told anybody in this room, "Your salary next year is going to only be 1 to 2 percent of the national health care cost," it would be a substantial raise, wouldn't it? I mean, I think we'd all be pretty excited to be getting that.

The other thing that bothers me is 80 percent of frivolous—of lawsuits against physicians get thrown out. What if I was only right 20 percent of the time? What if that was the standard I was held to? I see 30 patients a day. What if I only got it right on six of them? What's going to happen to the other 24? I think we need to hold these people to a higher standard, the same standard that physicians are held to. And I appreciate the fact that you're all working on reforming the system.

Thank you.

Secretary Evans. Thank you, Barb. Thank you very much. Nice job. Andy?

Aundria D. Kazar. My name is Andy, and thank you, sir, first of all, for having us here and letting us tell our stories. I appreciate it. I'm, as you can't tell, 32 weeks pregnant, and am also the practice manager for Drs. Susan Clark and Barbara Coen. When the decision was made at the end of August of '03 to no longer do obstetrics because looking at it, you know, financially it wasn't feasible, it was like, "Oh, that's okay, I can still see

them.” They’ve delivered my other two children, and I think anyone here knows the relationship that you have with your physician—you tell them stuff that you don’t tell anyone.

And so with Barb and Sue doing my other two deliveries, it was like, “Oh, we’re not going to have any more kids. I’ll get through this, no big deal.” Well, May, we’re having another child. And it came to an issue of now who am I going to have, because the women that I trust more than anything else in the world, who have entrusted in me to run their practice and pay their bills and hire the employees and deal with patients—I can’t go back to them for my most important thing that’s going to happen to my husband and I.

So we decided that we needed to go find someone else, obviously, since they can’t deliver me, even if I sign a piece of paper. We made a choice to see a midwife. And we have a wonderful midwife that we’re seeing, but we were informed on Friday that the physician that backs her may not be continuing to practice.

So now, again, at 32 weeks pregnant, we are now on the look for another provider of service. And I don’t feel that anyone should have to go through this. I mean, I know most of the physicians in town because of working in medicine for so long. I don’t know how the normal, average person who doesn’t can go and say, “Okay, how do I pick this doctor?” You know, “Oh gosh, are they going to be here in 6 months?” They’re leaving—the physicians are leaving in mass exodus out of Ohio, because it’s not cost-effective to run a practice there. And something needs to be done. And I’m asking you, please.

Secretary Evans. Andy, thank you.

The President. It’s not the first time she’s asked. Can I make a couple—I’m the President.

Secretary Evans. Oh, hold on just a minute. [Laughter]

The President. I met these two ladies before in Ohio. Philip said that one in seven doctors are leaving. In certain States, the number is much higher than that, and in certain specialties, the numbers are much higher than that. And just a couple of observations.

When I came to Washington, I thought that medical liability reform was a State issue. I was a Governor and a person who said, “We can do it better at the States than the Federal Government.” It turns out, so far the States who have had medical liability reform have done it better than the Federal Government because we haven’t done anything yet at the Federal level. Nevertheless, I looked at the impact of the defensive practice of medicine, at the unnecessary tests that doctors prescribe in order to make a defense when they get sued—not if they get sued but when. The odds are they’ll be sued, and it costs the Federal budget about 27 billion a year.

And so when you cite the statistics from the trial lawyers, what they don’t talk about is the defensive practice of medicine as a cost to society. There is a direct cost to the taxpayers. It’s a quantifiable number. It’s a lot at 27 billion a year. And so I decided it’s a national issue that requires a national solution.

You know, there’s a lot of rhetoric when it comes to medical liability reform about accessibility and affordability of health care. It’s a nice mantra. We all should be for accessibility and affordability. And so should Members of the United States Senate who have blocked medical liability reform to date, because these lawsuits are driving really fine, competent people out of the practice of medicine—like Barb—which makes medicine less accessible.

And then you heard not only the cost to our budget but the cost to an individual doctor to practice medicine is passed on to patients, which makes medicine less affordable. We need medical liability reform. This is a vital issue for the quality of life of thousands of people in our country. And I want to thank these two women for joining us again. I met them first in Canton, Ohio. They were just as articulate there as they are here, and their case is, unfortunately, one that’s being repeated in many States around this Nation.

And so I told you then and I’m going to tell you again: This is a priority issue for not only me but for a lot of people in the Senate. I say the Senate—it will pass the House. It is being blocked by a few in the United States Senate, and the trial bar has made this the number one issue for them. But it’s, as I

think you mentioned, Hilda, the notion of a lottery—we cannot have the legal system to be a legal lottery. We want the legal system to be fair and balanced so people can get good health care, so small businesses can afford to stay in business, so we don't hear these horrible stories about someone drug through this class action meatgrinder that has caused her and her—to go out of business.

And so I want to thank you for all coming. I am passionate on the subject because I want America to be the best place in the world for people to find work or to raise their family or to get good health care. And I can assure you all that I intend to make this a priority issue as I stand before Congress, when I give the State of the Union, and as I talk to leaders of the Congress about what I think ought to be done in the upcoming legislative session.

Secretary Evans. Do you want to say anything else? *[Laughter]*

Thank you, Mr. President. You know, I'm also glad that this issue is going to be right at the center of every kitchen table all across America, because it's those Americans that are getting impacted by this in such a serious and harmful way, and they need to be sending the message to Washington, how they also want something done about it.

Well, we've got a few moments here for a couple of questions. Professor, let me come at you, if you don't mind, just for a minute. Can you share with us an example of how plaintiff attorneys are using leverage to threaten companies with settlements? And in addition to that, I notice where you have taught in the past—capitalism, insurance policy, tort law, product liability, but you've added a new course called “economic development.” Are we starting to put this together finally in America, how this litigious society that we are in is having a dramatic impact on economic development in our country and job creation in our country?

Mr. Priest. Oh, I think it does have a dramatic impact on economic development in this country. What my course does is look cross-culturally, across countries to see how—to see what the determinants of development are. But I think there is no doubt that it's our litigation system that's dragging

our country behind and keeping it from developing even faster.

Now, on your question about tactics that lawyers use, can you give me 2 or 3 hours—*[laughter]*—I could answer that. Actually, the class action is one of the most powerful tactics that trial attorneys use. You know, for all of the class actions that are filed, there are very few that are ever litigated. There are some litigated in the discrimination field, but of mass tort class actions, they're never litigated. They're not even anticipating litigating them when they file them. It's simply such a bludgeon that it's known that if the class is certified, which is a kind of legal technicality that doesn't—purportedly doesn't look at the merits of the case, then the companies that are sued have to settle, because, as Mike has pointed out, they have to settle the case, because otherwise the company's going to go down the drain because of the stakes involved in the case.

So there's this ideal of a class action of representing a wide set of consumers repairing wrongs at a small level over a wide number—it doesn't work that way. It's almost entirely a bludgeon as it's currently being employed by the trial lawyers.

The President. Let me ask you something.

Mr. Priest. Sure.

The President. You said that the pending legislation—I think you referred to it as a “small” step or a “better” step? There was an adjective which, frankly, wasn't a “huge” step. *[Laughter]*

Mr. Priest. It's not a huge step, no, no, no.

The President. All right. Well, let me ask you something: What should Congress do? I mean, for example, in the class action—the bill, as I understand it, takes it from the States—makes it more difficult to keep it in the State court and moves it to the Federal courts, reflecting the interstate nature of the lawsuits, which therefore make it more difficult to achieve these—help me out here.

Mr. Priest. Well, what it does is take it out of the bailiwick of the Madison Counties and the Jefferson, Mississippis, that—where local judges who have close ties with plaintiff attorneys—I don't want to use the word

“conspire,” but they have a mutually symbiotic relationship—[laughter]—in letting these class actions go forward.

The President. Got that part.

Mr. Priest. So it will help to send the case to an Article III judge, who—in the Federal courts that operates differently. But that’s not going to solve the problem.

The President. Right. And so you said—help us with some solutions. Here’s your chance.

Mr. Priest. The most important solution in class actions—but it’s going to take more than the Congress; the courts are going to have to go along with this too—is to have—before certification—to have the courts evaluate whether there’s any merit to the class action or not.

The President. Got you.

Mr. Priest. I mean, the problem—even class actions that are certified at the Federal level can operate as bludgeons against the defendants who face them. Now, it’s harder to get it certified at the Federal level, and that’s the benefit, the step that would be taken by the class action legislation that is currently on the table. But it’s only a step. It’s not going to solve the entire problem.

And what really has to be done is to get the—what you call junk litigation, the frivolous litigation, the litigation where there’s really no merit to the underlying litigation and it wouldn’t succeed if it were litigated, but it’s too dangerous for the defendant to find that out and to gamble on whether—gamble the entire company on whether its lawyers or the opponent’s lawyers are going to be more successful before the judge.

Secretary Evans. Phil, do you want to jump in here?

Mr. Howard. Yes, I do. I mean, judges in America today don’t have the idea that part of their job is to actually draw the boundaries of what’s a reasonable or excessive claim or what’s a frivolous claim or not. People bring a claim, and they act like referees. I was debating the McDonald’s hot coffee judge—on Oprah, actually. [Laughter] It was really fun. But during a break he said, “You know, your theories are fine, but who am I to judge?” [Laughter]

And there’s this idea out there that justice is kind of an open season. Well, it’s not. The

rule of law requires deliberate choices. This is a valid claim; this isn’t. This is an excessive claim; this isn’t. No one is making those judgments today, and the people who are the victims are all Americans. Every day when they’re in the classroom, when they’re going through their jobs and they’re not saying what they think, or they’re not taking the kids out on field trips because they’re scared—they’re scared because they don’t trust the system of justice because the judges aren’t doing their job.

Secretary Evans. We just have a few moments left, and I want to come over here to Mike and talk about jobs for just a minute, because you really represent the backbone of the American economy. You’re a small business. They generate 70 percent of the new jobs in America. Give us a feel of how this is impacting your ability to create jobs or hire more employees. Can you give us any sense of that?

Mr. Carter. Well, it’s impacting us directly because we’re not able to grow our business like we would like to grow it. We can’t man our business like we would like to man it. And as far as trying to grow into another sector, into another State possibly, and have a business—you don’t know if you’re setting yourself up for the fall. I mean, it scares you to try to grow anything. And when you get to a point like that, it’s tough when you feel like you want to be aggressive, and you’ve got to just kind of hold back and pull the reins and sit there and wait to see how this stuff is going to unravel. It’s just created—and there are so many companies across the United States in the same position that I’m in, but we’ve just not had anybody hear us yet. And it’s just a great opportunity, Mr. President, to be here and be able to tell you this, and Mr. Secretary as well—

The President. Thanks.

Mr. Carter. —to get this voice out. And hopefully this year or sometime in the near future, something can be done on this, and get this straightened out to where we can go on and do what we do best, and that’s run our businesses and grow our companies. And until that happens, we’ve got to kind of hold back and wait and see what happens with this because if we end up in one court with one verdict, like I say, we’re upwards

of 100 different lawsuits right now, and we just got pulled into a class action as well. And we just don't know——

The President. Let me ask George something here.

You've studied the legal systems of different countries compared to the United States?

Mr. Priest. Yes.

The President. Give people a sense for the difference.

Mr. Priest. Oh, well, it's entirely different. Most legal—there's no legal system like the United States. There is no legal system that has anywhere near the magnitude of litigation measured in any terms, per capita, according to gross national product. No, no, no, we're by far the most litigious society that there has ever been.

In Europe, for example, one of our great and growing competitors, litigation is nothing like this. Decisions are made chiefly by judges. They don't have juries, which is a difference. And I'm not saying we ought to get rid of juries. But it is a much more controlled and defined legal system. The numbers of lawsuits are miniscule compared to the United States. And what's happening, of course, is—I mean the Europeans know; the Europeans aren't fools—they're coming to the United States and trying to sue in the United States courts for losses that they have suffered there. And some of our courts are entertaining these lawsuits.

And it's not just the Europeans. We're having lawsuits brought in the United States from citizens all over the world because, again, in terms of litigation, if you're a plaintiff, this is the land of opportunity. [*Laughter*] That isn't what our country has been about, of course.

Secretary Evans. It's really an industry, yes.

The President. I think it's important for people to understand that, particularly people who are going to be deciding the fate of these bills, that we live in a global economy, that we either have a disadvantage or advantage based upon our regulatory system, legal system, capital system. And this is an area, clearly, where we have a disadvantage relative to competitors.

Mr. Priest. Can I add one thing?

The President. Yes.

Mr. Priest. With regard to each of the three reforms that you've talked about, Mr. President, those aspects of the legal system don't exist in Europe or any other place in the developed world. There are no class actions in Europe, England, anywhere. There are—there's no malpractice liability to the extent we have it here against doctors. Typically, there's no lawsuits at all against doctors because they're a different—it's a different form of system. And, third, there's no asbestos litigation. Again, the only asbestos litigation of any magnitude in the world is here in the United States.

Secretary Evans. Let me ask you about Canada, which happens to be our number one trading partner. How would you stack up——

Mr. Priest. Canada—well, Canada is a good—it's a good case, actually. Canada comes from an English legal environment. The jury system doesn't exist over a very wide range. There are some juries, not very many, as in England. There are different sets of procedural rules, such as the loser pays. If you file a lawsuit and you lose the case, then you've got to pay cost to the other side. And so there has been nothing like the litigation explosion that we've seen here over the last three decades in Canada—nothing like it.

Now, Canada is starting to change a little, and they're starting to entertain different forms of justice much like they see in the United States, and that's not to the benefit of Canada, and it's not to the benefit of Canadian growth. But their way—in terms of this litigation explosion, they're not—it's not close. It's not close.

Secretary Evans. Bob, one last statement.

Mr. Nardelli. Let me just make two points if I can. I think this whole issue about corporate America, outsourcing America, that isn't the case at all. And it's not even foreign countries winning jobs. This is about lawyers pushing jobs out of this country. And Mr. President, you said this continuum from supplier to redistribution, I mean, it's just added cost. Everybody has to pile on.

And I—to Mike's point, let me just say, in America today, where corporations would normally reach out and help these corporate

Americans who, through no fault of their own, are losing jobs, because this continuum of responsibility or liability, acquisitions aren't being made. People aren't reaching out, because the minute you make one of these acquisitions, you take on that full responsibility. So it's really stagnating entrepreneurship and capital investment.

Secretary Evans. Bob, how does it impact your decision as to where you're going to locate your next plant and the American workers that you would therefore hire?

Mr. Nardelli. Well, we do a pretty rigorous job of identifying family formation per capita—for family income and so forth, Mr. Secretary. So we pretty much have to go where the customers are, in spite of these, what I'll call swampland jurisdictional areas. We'll still put a store in there because we're trying to serve our customers. It's a market-customer-back approach. But I would tell you that the cost, all the way up the supply chain, of everything that's been talked about here today just keeps piling on. And while we keep fighting to bring value to our customers, I think they become disadvantaged in this—just to take an example, of \$2,400. You know, their standards of living are impacted because of this.

Secretary Evans. Thank you very much. Well, I just thank all of you—audience, everybody else—for coming. I think it gave us a chance to zero in on probably one of the central issues as it relates to economic growth and job creation in this country, not only in the near term but for generations to come. We appreciate all this insight very, very much. And believe me, we're going to work as hard as we can to make sure that Congress understands your message, your thoughts, and we get meaningful tort reform passed in this upcoming session.

Thank you all very much. Appreciate it.

NOTE: The panel discussion began at 1:32 p.m. at the Ronald Reagan Building and International Trade Center.

Memorandum on Suspension of Limitations Under the Jerusalem Embassy Act

December 15, 2004

Presidential Determination No. 2005–14

Memorandum for the Secretary of State

Subject: Suspension of Limitations Under the Jerusalem Embassy Act

Pursuant to the authority vested in me as President by the Constitution and the laws of the United States, including section 7(a) of the Jerusalem Embassy Act of 1995 (Public Law 104–45) (the “Act”), I hereby determine that it is necessary to protect the national security interests of the United States to suspend for a period of 6 months the limitations set forth in sections 3(b) and 7(b) of the Act. My Administration remains committed to beginning the process of moving our embassy to Jerusalem.

You are hereby authorized and directed to transmit this determination to the Congress, accompanied by a report in accordance with section 7(a) of the Act, and to publish the determination in the *Federal Register*.

This suspension shall take effect after transmission of this determination and report to the Congress.

George W. Bush

Proclamation 7855—60th Anniversary of the Battle of the Bulge, 2004

December 15, 2004

By the President of the United States of America

A Proclamation

Sixty years ago, more than 600,000 American soldiers fought at the Battle of the Bulge in the Ardennes Forest region of Belgium and Luxembourg. What began as a German surprise attack on December 16, 1944, became the largest land battle involving U.S. troops in World War II and ended with an Allied victory on January 25, 1945. By the end of the battle, there were 81,000 American casualties, including approximately

19,000 who had sacrificed their lives. This formidable stand was a turning point in the war and was critical to the defeat of Nazi Germany and the liberation of Europe from tyranny.

Americans continue to be inspired by the valor and integrity of those who fought and those who died at the Battle of the Bulge. We recognize these brave individuals and pay special tribute to all the veterans of World War II. When it mattered most, an entire generation of Americans showed the finest qualities of our Nation and humanity. Today, as we wage a war on terrorism and defend freedom, our service men and women follow and uphold this great tradition of achievement and courage. Just like their parents and grandparents, the men and women of this generation of our military have answered the call to help advance peace and democracy and keep the American people safe.

On the 60th anniversary of one of the fiercest battles of World War II, our Nation honors the veterans who share with us the story of this epic struggle and all of the brave Americans who fought in the Battle of the Bulge.

Now, Therefore, I, George W. Bush, President of the United States of America, by virtue of the authority vested in me by the Constitution and laws of the United States, do hereby urge all Americans to observe the 60th Anniversary of the Battle of the Bulge. I call upon all Americans to observe this occasion with appropriate activities, ceremonies, and programs designed to honor those who served and sacrificed to liberate Europe and defend America's freedom and security.

In Witness Whereof, I have hereunto set my hand this fifteenth day of December, in the year of our Lord two thousand four, and of the Independence of the United States of America the two hundred and twenty-ninth.

George W. Bush

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Remarks in a Panel Discussion on Financial Challenges for Today and Tomorrow at the White House Conference on the Economy

December 16, 2004

The President. Thank you all. Yes, Joshua. Thank you all for coming. Last night I had the honor of attending a reception for those who have participated in these series of panels, and I had a chance to thank them. I said something I think is true, which is, citizens can actually affect policy in Washington. In other words, I think people who end up writing laws listen to the voices of the people who—and can be affected by citizen participation. So I want to thank you all for doing this.

We're talking about significant issues over the course of these couple of days. We'll talk about an important issue today, which is how do we keep the economy growing, how do we deal with deficits. And I want to thank you all for sharing your wisdom about how to do so.

One thing is for certain: In all we do, we've got to make sure the economy grows. One of the reasons why we have a deficit is because the economy stopped growing. And as you can tell from the previous 4 years, I strongly believe that the role of Government is to create an environment that encourages capital flows and job creation through wise fiscal policy. And as a result of the tax relief we passed, the economy is growing. And one of the things that I know we need to do is to make sure there's certainty in the Tax Code, not only simplification of the Tax Code but certainty in the Tax Code. So I'll be talking to Congress about—that we need to make sure there is permanency in the tax relief we passed so people can plan.

If the deficit is an issue—which it is—therefore, it's going to require some tough choices on the spending side. In other words, the strategy is going to be to grow the economy through reasonable tax policy but to make sure the deficit is dealt with by being wise about how we spend money. That's where Josh comes in. He's the—as the Director of the OMB, he gets to help us decide where the tough choices will be made. I look forward to working with Congress on fiscal

restraint, and it's not going to be easy. It turns out appropriators take their titles seriously. *[Laughter]*

Our job is to work with them, which we will, to bring some fiscal restraint—continue to bring fiscal restraint—after all, non-defense discretionary spending—non-defense, non-homeland discretionary spending has declined from 15 percent in 2001 to less than 1 percent in the appropriations bill I just signed, which is good progress. What I'm saying is we're going to submit a tough budget, and I look forward to working with Congress on the tough budget.

Secondly, I fully recognize and this administration recognizes there—we have a deficit when it comes to entitlement programs, unfunded liabilities. And I want to thank the experts and the folks here who understand that. The first issue is to explain to Congress and the American people the size of the problem—and I suspect Congressman Penny will do that as well as Dr. Roper—and the problems in both Social Security and Medicare.

The issues of baby boomers like us retiring, relative to the number of payers into the system, should say to Congress and the American people, "We have a problem." And the fundamental question that faces Government, are we willing to confront the problem now or pass it on to future Congresses and future generations. I made a declaration to the American people that now is the time to confront Social Security. And so I am looking forward to working with Members of both Chambers and both parties to confront this issue today before it becomes more acute.

And by doing so, we will send a message not only to the American people that we're here for the right reason, but we'll send a message to the financial markets that we recognize we have an issue with both short-term deficits and the long-term deficits of unfunded liabilities to the entitlement programs.

And I want to thank the panelists here for helping to create awareness, which is the first step toward solving a problem. The first step in Washington, if you're interested in helping, is to convince people that there is a problem that needs to be addressed. And once

we have achieved that objective, then there will be an interesting dialog about how to solve the problem.

I've got some principles that I've laid out. And first, on Social Security, it's very important for seniors to understand nothing will change. In other words, nobody is going to take away your check. You'll receive that which has been promised. Secondly, I do not believe we ought to be raising payroll taxes to achieve the objective of a sound Social Security system. Thirdly, I believe younger workers ought to be able to take some of their own payroll taxes and set them up in a personal savings account, which will earn a better rate of return, encourage ownership and savings, and provide a new way of, let me just say, reforming, modernizing the system to reflect what many workers are already experiencing in America, the capacity to manage your own asset base that Government cannot take away.

So with those principles in mind, I'm openminded—*[laughter]*—with the Members of Congress. *[Laughter]*

Anyway, thank you all for coming. I'm looking forward to the discussion.

Joshua B. Bolten. Mr. President, thank you. Thank you for convening us. It warms my budget heart—*[laughter]*—that you've taken the time to come and talk about fiscal responsibility, which is so important, especially at this time. We've come through some tough years, Mr. President, during your tenure.

As you entered office, the economy was entering recession. We had the attacks of 9/11. We've had the war on terror. We've had corporate scandals that undermined confidence in the business community. All of those together took a great toll on our economy and especially on our budget situation, as you mentioned. And we've started to turn it around. The economy is well out of recession. It's growing strongly, as I think our panelists will talk about. And as a result of that, we are seeing a dramatically improving budget situation.

We originally projected our 2004 deficit to be about 4.5 percent of GDP, and when we got the final numbers just a few weeks ago it was down to 3.6 percent of GDP, a dramatic improvement. Now, that's still too

large, but it's headed in the right direction. You mentioned, Mr. President, the 2005 spending bills that you just signed last week. I think those have to be regarded as a fiscal success, because you called on the Congress almost a year ago to pass those spending bills with growth of less than 4 percent overall and especially to keep the non-national-security-related portion of that spending below 1 percent, and they delivered. And that's the bill that you signed just last week. We're working now, Mr. President, as you know, on the 2006 budget. And I'm hopeful that we will keep that momentum of spending restraint going.

What I think we will be able to show, when we present your budget about 6 or 7 weeks from now, is that we are ahead of pace to meet your goal of cutting the deficit in half over the next 5 years. And I think that's very important. And I think our panelists will talk a little bit about why that is.

So let's step back a little bit from the Budget Director's preoccupations and talk more broadly about the economy. Our first panelist is Jim Glassman, who is senior U.S. economist at J.P. Morgan Chase. He's a frequent commentator in the financial press, I think well-known in the financial community.

And Jim, let me open it with you and ask you to talk about how the budget situation is related to the economy overall, because that's really what people care about.

James Glassman. All right. Thanks, Josh. Thanks, President Bush, for inviting us here to participate in this discussion. It's a privilege.

The Federal budget is tied very closely to the fortunes of the economy. When the economy is down, revenues are down. When the economy comes back, revenues come back. In the last several years, we've seen that link very closely: The economy slowed down; revenues dried up; the budget deficit widened. It's happened many times before. And in Wall Street, Wall Street understands this link between the economy and the budget, and that's why—we anticipate that these circumstances are going to be temporary, and that's why long-term interest rates today are at the lowest level in our lifetime, even though we have a budget deficit that's widened. And in fact, now, with the economy

on the mend, the revenues are coming back, and the budget deficit appears to us to be turning the corner. So I think the prospects are looking quite good for the budgets going in the next several years.

Now, to me, the link between the economy and the budget tells you there's an important message here, and that is: Policies that enhance our growth potential are just as important for our long-run fiscal health as are policies to reform Social Security and health care reform. We know how to do this, because over the last several decades we've been reforming our economy, deregulating many businesses, breaking down the barriers to trade. And it's no surprise that countries all around the world are embracing free market principles. Free markets is the formula that has built the U.S. economy to be the economic powerhouse that it is.

Now, I realize the last several years have been challenging for a lot of folks, and it's hard for folks to step back and appreciate the amazing things that are going on in the U.S. economy when they're struggling with this, with the current circumstances. But I have to tell you, what we are watching around the U.S. economy is quite extraordinary, and I would like to highlight two things in particular that are important features of what's going on in the U.S. economy, because it tells us—that basic message is, it tells us that we're on the right paths, and number two, it tells us how we might build on the policies that are helping to encourage growth.

The first important observation: Productivity. Productivity in the U.S. economy is growing almost 3 times as fast as the experts anticipated several years ago, a decade ago. Now, we know why that's happening: Economic reform has strengthened competition; the competition has unleashed innovation; that innovation is driving down the cost of technology; and businesses are investing in tools that allow us to do our jobs more efficiently. Why that's important? Because most of us believe that what's driving this productivity is information technology.

Now, in my mind, when we're at an extraordinary moment like this with rapid changes in technology, it opens up a lot of frontiers. Who is it that brings that technology and creates growth? Who is it that

drives the economy? It's small businesses. That's where the dynamic part of the economy is. And so policies that focus on making the business environment user-friendly for small businesses, like the tax reform, are an important element of building on this productivity performance that's going on and building on the information technology.

Second important aspect of what's going on in the U.S. economy—everybody knows we faced an incredible number of shocks in the last several years. These shocks, which, by the way, destroyed almost half of the stock's market value in a short period of time, for a moment, were potentially as devastating as the shocks that triggered the Great Depression. And yet, the experts tell us the recession we just suffered in the last several years was the mildest recession in modern times. That tells you something about the resilience of the U.S. economy. It tells you that we have a very flexible economy to absorb these kinds of shocks. And I personally think that this is the result of a lot of the reforms that we've been putting in place in the last several decades. It has made us much more resilient.

I find this an even more incredible event because when you think about it, we had very little help around the world. The U.S. economy was carrying most of the load during this time. Japan, the number two economy, was trapped by deflation. Many of our new partners in East Asia have linked to the U.S. economy, and they're depending on their linkage with the U.S. economy to bring—in hopes of a better future. The European region has been very slow-growing. They've been consumed by their own problems. So, frankly, we've been in a very delicate place in the last several years; the U.S. economy was the main engine that was driving this. And yet, we had this incredible performance. I think it's quite important.

Now, when you ask economists to think about the future, where we're likely to go, it's very natural—the natural tendency is to believe that we're going to be slowing down eventually. And we can give you all kinds of reasons why this is going to happen, demographics, productivity slows down. My guess is we would have told you this story 10 years ago, 20 years ago, 100 years ago.

And I think what's quite incredible—I'm, frankly, somewhat skeptical of this vision that we all have, because, if you think about it, we've been growing 3.5 percent to 4 percent per year since the Civil War. If we can match that performance in the next 50 years—and I don't see why that's so hard to do, given the kinds of things we are discovering about our economy and the kinds of benefits we see from all this reform—then I think the fiscal challenge that we see in our mind's eye will be a lot less daunting than is commonly understood.

So, of course, I don't want to say that growth can solve all our problems. It won't. There clearly are challenges on the fiscal side, and it's important that we strengthen the link between personal effort and reward. And that's why it's right this forum should be focusing on Social Security reform and health care reform.

Thank you.

The President. May I say something?

Director Bolton. Mr. President. [Laughter]

The President. Thank you. [Laughter] Who says my Cabinet does everything I tell them to? [Laughter]

You know, it's interesting, you talked about the Great Depression, and if I might toot our horn a little bit, one of my predecessors raised taxes and implemented protectionist policies in the face of an economic downturn, and as a result, there was 10 years of depression. We chose a different path, given a recession. We cut taxes and worked to open up markets. And as you said, the recession was one of the shallowest.

And the reason I bring that up is that wise fiscal policy is vital in order to keep confidence in our markets and economic vitality growing. And that's one of the subjects we'll be talking to Congress about, which is wise fiscal policy. And that is the direct connection between the budget and spending and confidence by people who are willing to risk capital and therefore provide monies necessary to grow our job base.

Director Bolton. Mr. President, let's talk a little bit about how investors see those issues that you and Jim Glassman have just been talking about. Liz Ann Sonders is chief investment strategist to Charles Schwab &

Company. She's a regular contributor to TV and print media on the market issues that investors care about.

And Liz Ann, let me just open it to you and ask you, how do investors see those broad macroeconomic issues that Jim was just talking about?

Liz Ann Sonders. Thanks, Josh. Thanks, Mr. President. I do spend a lot of time out on the road talking to individual investors. And I will say that the deficit issue is probably, if not the number one, certainly in the top three questions I get. I think there is a terrific amount of misunderstanding, though, about the nature of deficits, how you get there, how do you get out of a deficit situation, the cause and effect aspects of it, and I'll talk about that in a moment.

And we know that higher deficits are a burden on future taxpayers, but I think what, in particular, the market would like to see is the process by which we go about fixing this problem. And I think the markets are less concerned about the number itself and don't have some grand vision of an immediate surplus but the process by which we solve that problem.

There's a lot of ways to do that. It is all about choice. And certainly, there's one theory that the only way to solve it is to raise taxes. I don't happen to be in that camp, and I would absolutely agree with Jim and certainly with this administration that the policies absolutely have to be progrowth.

And I think the other benefit that we have right now—and Marty Feldstein talked about this yesterday—the difference between the Waco Summit and this conference today as representing a very strong economy right now versus a couple of years ago. And what that allows you to do is have this much stronger platform from which you can make a sometimes tougher decision. And I think that's a very important set of circumstances right now. I would agree with Jim, also, at the bond markets' perception of this, the fact that long-term interest rates are low, so we have at least have that camp of investors telling you that maybe the risks aren't quite high as some of the pessimists might suggest.

Forecasting is also difficult. I know your administration suggested that going beyond 5 years is a tough task, and it is. The market,

however, builds itself on making forecasts for the future and oftentimes will develop a consensus about something, and I will say that I think the consensus is one maybe of a little bit—maybe not pessimism but not a lot of optimism from a budget deficit perspective. So, I think the opportunity comes with showing some effort. And you can really turn the psychology of the market very, very quickly under a circumstance where maybe market participants are actually pleasantly surprised by the turn of events.

Typically, when you look back in history and you look at processes by which we've improved a deficit situation, those that have been accompanied by better economic growth have typically been those where the focus has been on spending restraint, entitlement reform. Those times where we have improved the deficit but it's been in conjunction with weaker economic growth are typically those periods where tax increases have been the process by which we have gotten there.

And I also think that many investors misunderstand the relationship between deficits and interest rates, and there is a theory building now that higher deficits automatically mean higher interest rates. Well, case in point, it's just the most recent experience, but we can even go back to the late nineties—the reason why we went from deficit to surplus was because the economy was so strong. Because the economy was strong, the Federal Reserve was raising interest rates. The reason why we went into deficit was because the economy got weak, which is the reason why the Federal Reserve had to lower interest rates. So you have to understand, again, the cause and effect here.

The path of least resistance, of course, is to make everybody happy. But something has to give. You've all talked about this, the “no free lunch” idea. But I'm just a strong believer that entitlement reform and long-term priorities take precedence right now over short-term fixes, certainly if it required tax increases. And I think that—Mr. President, you talked about having political capital—I'll go back to this idea that we now have economic capital that allows us to not disregard the short-term fixes for the deficit here but

really take this opportunity for long-term structural reform.

I'm a big believer in personal accounts, empowering investors. My firm, built by "the Man," Chuck Schwab, is all about empowering individual investors. And I think these long-term adjustments that need to be made, which is really a part of this whole conference, are so important right now. And I think that's absolutely what the market wants to see.

Thanks.

The President. Good job. You're not suggesting that economic forecasts are as reliable as exit polling, are you? [*Laughter*]

Ms. Sonders. I'm not going there. [*Laughter*]

Director Bolton. Mr. President, I'm going to move on. [*Laughter*] I'm glad that Liz Ann raised the distinction, as you did in your opening remarks, between our short-term picture and our long-term picture. Our short-term picture is, indeed, looking a lot better. I think we'll be able to show a very clear path toward your goal of cutting the deficit in half over the next 5 years. But the long-term picture is very challenging.

We're very honored to have with us Tim Penny, who is a professor and co-director of the Hubert Humphrey Institute of Public Affairs. He's also a former Democratic Congressman and an expert on a lot of the long-term issues we're talking about.

And Congressman, let me turn it over to you and ask you to talk a little bit about what are these entitlement programs, and why are they important for our long-term budget picture.

Tim Penny. Well, I think—thanks, Josh, and Mr. President. I think the first thing to note is that the long-term picture is rather bleak, that the status quo is unsustainable. And when you talk about the difference between discretionary and entitlement spending, that tells the story.

Discretionary spending, as you referenced earlier, is the part of the budget that we control annually. It comes out of the general fund. It's education. It's agriculture. It's defense. It's a whole lot of stuff that we think about as the Government.

But the entitlement programs are those that are on automatic pilot. They're spelled

out in law, and the checks go out year in and year out, based on the definitions in law. So if you're a veteran, you're entitled to certain health care benefits under this system. If you're a farmer and you grow certain crops, you're entitled to subsidies. There are some that are means-tested, in terms—we give them to you only if you need them, and that's where our welfare programs and much of our Medicaid spending comes into play. And then there are the non-means-tested entitlement programs, and among those are Medicare for the senior citizens and Social Security for senior citizens. So, they're age-based programs.

And those entitlement programs are the biggest chunk of the Federal budget. I think it's constructive to look back over history. In 1964, all of these entitlement programs plus interest on the debt, which is also a payment we can't avoid, consumed about 33 percent of the Federal budget. By 1984, shortly after I arrived in Congress, they consumed 57 percent of the Federal budget, and today, they consume 61 percent of the Federal budget.

Now, let's look forward a few decades and see where we're going to be with entitlement spending. By the year 2040, just three—well, actually four of these sort of mandatory programs are going to eat up every dime, income taxes, payroll taxes, all other revenues that we collect for the Federal Government. Medicaid, Medicare, Social Security, and interest on the debt will eat up everything. There won't be a dollar left in the budget for anything else by the year 2040. That tells you the long-term picture, and it is bleak. So something has to give. Doing nothing is not an option.

Let's look at Social Security alone. And this is something that my colleague, Mr. Parsons, will speak to in a few minutes. There are huge unfunded liabilities here. We haven't honestly saved the current Social Security trust fund. Even though extra payroll tax dollars are coming in each year, they're not honestly being set aside for this program. Just by the year 2040, there's about \$5 trillion of unfunded liability in that program. Now, we've got to come up with the money somehow to replace those promised dollars, and it's no easy task. And I know that a million, a billion, a trillion sort of gets lost on the

average listener, so I always like to explain that if you're looking at a trillion dollars, just imagine spending a dollar every second, and it would take you 32,000 years to spend a trillion dollars. So even in Washington, that's big money. [Laughter] Or as we say in farm country, it's not chicken feed. [Laughter]

So the other way you can look at this is, your Social Security statement comes in the mail every year, and it gives you some sense of your promised benefits in the Social Security system. But on page two of this statement, there's an interesting asterisk. And the asterisk says, "By about the year 2040, we're not going to be able to pay you all of the benefits that we're promising you. We're going to be about 25 percent short of what we need to pay those benefits." So, what does that mean we would have to do if we wait until the last minute to fix this program? We'd either have to cut benefits dramatically, or we'd have to impose the equivalent of a 50 percent payroll tax increase on workers to get the money into the system to honor the promised benefits.

So huge benefits cuts or a huge tax increase—I don't think that's where we want to go, especially since 80 percent of Americans now pay more in payroll taxes than income taxes. I don't think that's a solution that they're going to applaud. But frankly, it is the kind of solution we're left with if we wait too long to fix the mess. We waited too long 20 years ago. When I first arrived in Congress in 1983, we had a Social Security shortfall. We were borrowing money out of the Medicare fund to pay monthly Social Security checks. So what did we do, because we were already in a crisis? We cut benefits by delaying cost-of-living adjustments. We cut benefits by raising the retirement age, first to 67 and—66 and ultimately to 67, and we increased payroll taxes significantly during the 1980s. And so we basically said to future workers, based on that legislation in 1983, "You're going to pay more and get less."

I mean, to me, that's the problem with waiting until the last minute to fix this, is that you give people a worse deal. So my view on this is that, for the long term, we can't wait until the crisis hits to address the issue. We have to look at these challenges now and give the next generation a better

deal. And if we plan ahead and plan appropriately, we can do that.

So we need to act before it's too late. And then I think we send all the right signals, and we do a better deal for younger workers than sort of the same old, "cut benefits, raise taxes," a solution that's been imposed in the past.

The President. I appreciate that. I think the issue has shifted. I think there are more people now who believe they'll never see a check than people who are worried that they'll have their check taken away. And I think it's important for Congress to understand that. And my attitude is exactly like Congressman's, and that is that now is the time to deal with it. And it's going to be very important that we reassure our seniors who depend upon Social Security that nothing will change as—and that's been part of the political problem. And any time anybody mentioned the word Social Security, the next thing that followed was, "Yes, he's saying that because he's going to take away your check." And really what we're talking about is the new generation. I appreciate you pointing that out, Tim.

Representative Penny. If I can just add this one point, if we had saved these surpluses honestly in personal accounts over the last 20 years, we'd be well on the way to fixing this problem by now. And so we may be a little late in getting this done, but it's still important to move in that direction.

The President. Thank you.

Director Bolten. Somebody who's been directly involved in and a leader in trying to formulate a solution for the Social Security problem is Dick Parsons, who is CEO and chairman of Time Warner. And he was Chairman of the President's commission on Social Security, cochair with the late Senator Patrick Moynihan, whom I know we all miss at this time.

Mr. Parsons, we're grateful that you're here, and I wonder if you would follow on Congressman Penny's remarks and talk a little more specifically about your Commission's work, what problems you saw, what solutions you saw.

Richard D. Parsons. Thank you, Josh, Mr. President. The President said earlier that we have to recognize that we have a problem

with Social Security. I think everybody does. And I don't know that they share the urgency that Tim just spoke to and the President just spoke to or really understand the nature of the problem. So, let me take a step back and talk about—approach it from a slightly different angle, talk about what is the problem with the Social Security system, which was created in 1935 as what they call a pay-as-you-go system.

Now, most people here know that, but it was amazing to me, when we had our Social Security Commission, we went all around the country, we had a number of public hearings, and the people would come and say, "Well, what are they doing with my money?" Well, what most people didn't know is they were taking your money that you pay in every day or every week when you get a paycheck, and within a very short period of time it's going out the other door to pay benefits, pay-as-you-go: Money comes in; it goes out to pay the benefits.

Now, that system was created at a time when for every person who is eligible to participate—retirees, let's call them—there were 40 people in the workforce. There were 40 people working to support one. It was also created at a time when the average life expectancy for males was such that the average man would not live to see the day that he could qualify for Social Security. So, you would pay in, and the system was built in part—this is not cynical; it's just fact—on the notion that half the people who paid in would never get anything out because they would be dead.

So, where are we today? Today, there are three people in the workforce for everybody who's eligible for Social Security. Today life expectancy is expanded anywhere from 5 to 7 years, depending on gender, since the time the system was created, so that the great majority of the people who participate will live to see benefits. The fastest growing part of our population is 85 and up. So, we have a totally different set of circumstances that we're dealing with. And it's only going to get worse in the sense of—or more distant from the way—the situation that existed when the system was created. By the year 2020, you'll have two people in the workforce for every

person eligible to receive benefits. And life expectancies will be even greater then.

So the whole factual basis that underlies this pay-as-you-go system has changed. And what's happened is—Tim mentioned that we have huge underfunded shortfalls in the system. If you—they usually do this on an actuarial basis out 75 years. If you look out 75 years and say, "How much does the system promise it will pay," and you look out 75 years and say, "Under the existing tax scheme, how much money are we going to be able to have to pay it," in current dollars, in actual dollars, it's about an \$11 trillion to \$12 trillion shortfall over 75 years. If you roll that back into the current dollars and you say, "What would it take today to close that," it's about \$4 trillion. So that's the problem.

The problem is, we've promised more than the revenues that we have or that we can look to, to pay. So what's the solution? The traditional solutions are, as Tim just indicated, either we increase the taxes so you get more revenues in or you decrease the benefits so you get less money out. The problem with that is it's a bandaid. And given these demographic shifts that we're talking about and that we see, it simply can't last. You might be able to put one more bandaid on the wound and patch us over for another 5 or 6 years.

But for example, some people say, "Why don't you just lift the wage cap?" Only the first \$90,000, as of the beginning of the year, is subject to Social Security taxes. Well, even if you eliminated the wage cap, that only buys you 4, 5, 6 more years, and then you're back in the same problem. We have to face up to the fact that the country is in a different place than it was when this system was created. And the fix needs to be structural. It needs to be fundamental. We need to change the architecture of Social Security.

And what I mean by that is we gradually have to move from a system that is based on a pay-as-you-go basis when you had 40 people in the workforce for everyone not, to a system that is on a fund-as-you-go basis, where people can begin to start to fund and put away the money that they will look to in their later years for their support and sustenance.

Now, this is not unprecedented. This is exactly what's happened in the business world. Every corporation in America, mine included, has been engaged over the last 20, 25 years in a migration from pay-as-you-go kind of pension arrangements to funded arrangements. Now, nobody has gotten there—very few have gotten there—probably Charles Schwab has gotten there, in terms of fully funded arrangements right now—but putting the money away now to pay liabilities in the future. This is what private accounts is all about. And that's why the Commission came down recommending, in all of the options that we put forward, private accounts. It's the beginning of shifting from complete pay-as-you-go to starting to fund some of our future liabilities now.

And that's—at the end of the day, while the Government is, in law and in sort of a forced social reality, a different entity than the business community, economically, it's not. Economically, it's going to have to step up to the same reality that business had to step up to, that we can't continue a system that puts a huge burden on future generations that they're not going to be able to meet. We're going to have to start saving and funding our responsibility to ourselves on a current basis.

And that's why we made private accounts as a beginning step—this is not privatization of Social Security. What it really is, is—and again, this isn't unprecedented; this is what business has done—it's beginning to have a hybrid system where you have a floor, a base, below which no one can go that is funded on what they call a “defined benefit” basis—that you will get this money, this minimum amount of money, no matter what. But then you have an ability above that to enhance that on a defined contribution basis—i.e., you put money away now, invest it wisely, and it will come back to you and give you an even better standard of living in a future time.

So that's essentially the nature of the problem and why we thought that it was time for structural, architectural change to Social Security, not just tinkering. You can't—you know, tinkering can't work anymore. The demographics—this was Pat Moynihan's point. He would say, “Demography is your destiny.

We just can't do what we've done in the past any longer. We've got to do something different.” And this was an idea that made sense.

Director Bolton. Mr. President, you mentioned that for current seniors, this is not a debate for them, that those at or near retirement, this discussion that's going on now should not affect what they've been promised and what they can expect to get. It's the next generations that this is debate—that this debate is about and who should be concerned about it. You mentioned, Mr. President, that a lot of the next generation doesn't think that there will be benefits there for them.

Sandy Jaques is somebody, obviously, from that younger generation. She's a single mom from West Des Moines, Iowa, and she's active in a group called Women for Social Security Choice. And Sandy, let me ask you to speak for the—speak for regular folks and younger regular folks—[laughter]—and tell us why you got involved in this organization, why are you active on Social Security issues.

Sandy Jaques. Sure, Josh. Well, I think the President stated it the best when he said most people in my generation believe that we're more likely to never get a benefit than to have our check taken away from us. I guess it would be nice to get to the point where we had a check, and then we're worried about it being taken away.

So I guess I'm here because I want to make sure that we do get to the point where my generation retires and we do have Social Security around and intact for us. But more importantly, as you mentioned, I have a daughter at home. Her name is Winter. She's 10 years old, and I want to make sure that she has Social Security when she retires as well.

And I believe that the only way to really get to that point is with personal retirement accounts. They're really the only way to update or modernize Social Security in a real way without tinkering it, as Mr. Parsons talked about and as Congressman Penny did when they were in Congress, because then you only resort to a tax increase or benefit cuts. With personal retirement accounts, you have money in an account, and that money is allowed to grow, and it's that growth that

actually will help to fix Social Security for future generations.

Without that, if we wait, we will have to resort to raising payroll taxes or cutting benefits like they did in the eighties. To speak to raising payroll taxes on a personal level, I can't afford a payroll tax increase. In fact, I think I definitely pay more than enough right now, and that's another reason why I support Social Security reform. I am not one of these young people that is willing to give up on that money I'm already paying into the system. I want to see the system fixed so that I can get that money back when I retire.

And as Tim mentioned, by 2040—I actually retire in 2044 unless the retirement age is raised again—but in 2044, we're already at the point if we do nothing, I will get 25 percent less than what I should get under the current system right now. So, that is why this issue is very, very important to me.

But I also want to talk about current seniors right now. My grandma is already retired. My dad actually plans to retire next year and my mom a couple years after that. It's very important to me to make sure that their benefits remain intact for them. They—it's too late for them to invest in a personal retirement account. But because of that we need to make sure that we guarantee their benefits through their retirement, because it's something that they've been relying on. And it's, I think, our duty to make sure that we make sure that happens.

But at the same time, I also think it's the country's duty to make sure that we fix Social Security now so that it's around for when future generations retire because personal accounts are really the only way to give us retirement security in the future for me and, more importantly, my daughter. Because if I am faced with a 25 percent benefit cut when I retire, they may be looking at raising payroll taxes on my daughter and younger generations at that time. So really, that's why this is very important to me, Josh.

The President. You know, one of the interesting visions of personal savings accounts is that Sandy will be able to pass her account on to Winter as part of Winter's capacity to retire as well. It is a novel concept, clearly

different from the current system where you don't pass anything on.

Ms. Jaques. That's a great point. That's also very important to me because if you do get to the point where you're raising payroll taxes or cutting benefits to make Social Security solvent at that time, you still don't own your benefits. With a personal account, you own the money that's in that account. And I'm sure Winter will be hoping that I have a very modest retirement so that there is some left for her—[laughter]—when I die. But that's a very important aspect as well.

The President. One of the things on personal accounts that listeners must understand is that you cannot take—if a personal account, in fact, exists, you can't take it to the racetrack and hope to really increase the returns. [Laughter] It's not there for the lottery.

In other words, there will be reasonable guidelines that already exist in other thrift programs that will enable people to have choice about where they invest their own money, but they're not going to be able to do it in a frivolous fashion, which will mean two things. One, it's more likely there will be a rate of return higher than that which is in the Social Security trust and, secondly, more likely to be actual money available when you retire.

Director Bolton. Mr. President, we've been focused on—principally so far on the retirement security of today's and future seniors. It's also very important that seniors have some security about their health care situation. And so we're privileged to have with us Dr. Bill Roper, who is dean of the School of Medicine at the University of North Carolina in Chapel Hill. And he's also head of the UNC health care system. Dr. Roper also served in a previous Bush administration as—among other things, as the head of the Medicare system. So he knows a lot about this stuff. And let me just ask Dr. Roper to bring us out of the retirement system and into the health care system and tell us what are the challenges we face there and what do they mean for our budget situation.

Dr. William Roper. Thanks, Josh. And thank you, Mr. President. I think that is my role on this panel, is to say: Remember health care; remember Medicare. Surely, the focus

on Social Security is important, but there's this other large and, indeed, faster growing entitlement program called Medicare. Just a few numbers to make the point: This year, the Medicare program is one-eighth of the entire Federal budget. Ten years from now, that's projected to be one-fifth of the Federal budget. And by 20 years from now, Medicare will be larger than Social Security, so it will be the largest Federal entitlement under current growth rates.

Another point: This year, 2004, the trust fund that our payroll taxes go into that pays for hospital and related benefits in Medicare—more money is going out of that trust fund to pay for current needs right now for seniors and others in the Medicare program than payroll taxes are going into it. So the balance in the trust fund is beginning to go down, and it's projected to be entirely exhausted, under current spending patterns, by the year 2019.

All of that is driven by changing demographics. We're aging as a society, and we have a more expensive health care system. Now, a lot of times we in the health policy community beat up on ourselves, saying that's a terrible thing that we're devoting so much to health care. I think it's important to point out that health care is something that we value tremendously as a society. The ability to spend so much on health care is part of our being a very healthy economy and a society that says we want to invest in our health, especially the health of seniors.

And many good things result from health care. A very careful study a few years ago by some economists showed that if you look carefully and count the costs and count the benefits, that technology—technological advances in health care are worth the cost. The benefits far outweigh the costs. And so we ought to continue to feel good about that, especially those investments in prevention that end up paying rich dividends down the line.

Projections about how much we're going to spend in Medicare is more difficult than the projections for Social Security. Everybody who is going to be a senior citizen 50 years from now has already been born, so we know how to project Social Security numbers. But we don't know what medical ad-

vances are going to occur, what new technologies, new treatments, new drugs, whatever, are going to be there. We don't know how much they're going to cost. Some will surely save money; some will cost more. The benefits there are substantial. But the simple point is, the growth rate for Medicare is unsustainable. We just can't devote the entire Federal budget to health care.

So the question becomes, how do we constrain that growth? What do we do about it? And broadly speaking, we face two options. One is to do what Medicare has done over the last several decades. And I was there in the eighties and the nineties, and we put in place what are called administered price systems, which is the Government deciding how much to pay hospitals and how much to pay doctors and running those systems so that we try to restrain the rate of growth to the extent possible.

The alternative, which many people, myself included, and you, sir, are advocating is a much greater reliance on individuals and empowering them to make choices, helping them see the value of investing in preventive behavior, better health for themselves long-term, providing information on who are the quality health care providers so that people can make choices about where to go for themselves, and moving us towards a time when we will see head-to-head competition between alternatives to Medicare and the traditional Medicare program. The Medicare Modernization Act of last year took us important steps in that direction. But we have much more to do.

In general, we need to see that the philosophy of private accounts applies to Medicare, just as we've been talking about Social Security. So we need to move towards more choices for individuals, more competition in market forces and health care, and more organized integrated care, especially for people with chronic illnesses, because they're the ones who end up costing so much. If we can intervene early with preventive techniques, as I said, we can lower that rate of growth in spending and end up with a program that we value just as much as the one that we value today but doesn't cost as much.

The President. Thanks for mentioning the Medicare bill. One of the reasons I was

strongly for it was because it did begin to interject a sense of choice for seniors into the marketplace. And secondly, it recognized that medicine has changed. And when you have a kind of a static system where Government makes the decisions, it's hard sometimes to get bureaucracies to adjust to the reality. And the reason why I believe the prescription drug benefit was a vital component of a new and modern Medicare system was so that we could prevent hospital stays, for example, by the judicious use of prescription drugs. And Medicare—I've said this a hundred times around the country—Medicare would pay for hospitalization for a heart attack but wouldn't pay for the prescription drugs the could prevent the heart attack from occurring in the first place, which didn't seem like a very cost-effective way to try to provide good health care.

And the reforms in the modernization program that we've got there has begun, I think, to address the inadequacies of Medicare as a result of decisions being made at the Federal level. But you're right, we've got more to do.

Dr. Roper. A lot more to do, but it's a step in the right direction.

The President. Thank you.

Director Bolten. Mr. President, I want to bring our economists back in now, because we've heard about some daunting challenges in the Social Security system, in the health care system—and let me ask Liz Ann first, what are markets and investors looking to the Federal Government to do at this point?

Ms. Sonders. Let me stay on Social Security reform for a minute. NBC/Wall Street Journal just had an interesting poll out this morning that was reported showing about 50 percent of the surveyed population was not for private accounts. What I found more interesting was a little bit later in the report, there were more questions asked than just that, and there was another more general question asked about, if these same folks had the opportunity to put more money in the stock market, would they? And 80 percent said yes.

So I think this goes back to this idea of a lot of misunderstanding, I think. One of the problems that we're dealing with now is because many in the Wall Street community

very much believe in private accounts, there's this natural assumption that it must only be because Wall Street is going to be a huge beneficiary of these private accounts. And certainly what I think makes the most sense and the person for whom I work, Chuck Schwab, thinks makes most sense, is that you are very controlled. As you said, Mr. President, a thrift savings plan kind of program where your options are very limited; it's very index in nature. The fees are structured to be so minimal that in fact even the studies have shown that under any set of proposals Wall Street probably doesn't make any money on this for another 7 or 8 years. So I think there is this natural assumption that if Wall Street is for it, it must mean that they are going to be big financial beneficiaries of it.

I just think, again, it goes back to what I know you're a big supporter of, which is the democratization of the markets for individuals, putting more control in people's hands. And I think this, much like 401(k)s did as we moved from a benefit part of the non-Social Security retirement to more of a contribution style—it's really been one of the reasons why net worth has gone up. And I think Sandy made some wonderful points about the power that that puts in your own hands. And the fact that you can actually pass it on to future generations makes all the sense in the world to me.

Director Bolten. Liz Ann has focused on those personal accounts in particular. Let me ask Dick Parsons to say a little more in detail about what your Commission concluded about personal accounts and what's the right way to do this kind of thing.

Mr. Parsons. Fair enough. The point I was making earlier is that we've got to migrate from an unfunded plan, right, that assumes there are always going to be enough people in the workforce to take care of those who are not, to a funded plan where folks who are out of the workforce have had a chance, over the course of their working lives, to take care of themselves.

Now, that can be done one of two ways. The Government could do it. In other words, the Government could hang on to the money and actually save it instead of spend it, or you could give people the power to do it on

their own behalf. And after—we went around the country, we talked to literally scores of people representing scores and scores and scores more. And clearly, I think, the sense of our fellow Americans and our sense as a Commission was, the better of those two choices is to begin to let people fund their own programs so that they, A, had a sense of ownership, of wealth creation. The object ought to be, at the end of the day, to put everybody in America in a place where, while the Government is the place of last resort when everything goes wrong, there are fewer and fewer of them because more and more of us can take care of ourselves, right? So that's the objective; that's the direction the Commission felt that this migration to a funded world should go.

Now, there are lots of examples of how you can do that. Sure, the President just said you don't want to say to everybody, "Well you just—you can hang on to 2 or 3 percent of your money and just put it in your pocket, do what you want with it." There's some people who would go to the track. People aren't ready for that just yet. But there are lots of examples of ways in which this can be done cost effectively. The Federal Thrift Savings Plan which the President referred to and which Liz Ann just talked about is a great example. That is a program that exists for people who work for the Federal Government now who have this right. And it's been run for a number of years. Its results are superior, particularly compared to the returns you would get leaving that money with the Government. And the beneficiaries of that are the people who participate in that plan.

So we think that there ought to be, at least initially, limitations on how much discretion you have in terms of investing the funds and creating some kind of trust arrangement where there are people who are investment professionals who help structure and manage the costs of the initial options. But clearly, people ought to be able to start to save on their own behalf to create wealth for themselves so that they have that wealth to look to in their later years, as opposed to a Government promise only, which at some point in time is going to have to come up empty because you won't have a big enough revenue base to draw from to satisfy the problems.

Director Bolten. Congressman Penny, the—one of the critiques I've heard about taking some of the steps that Dick Parsons is talking about is that, look, this isn't a problem for decades to come. It may be a problem by the time Sandy retires but certainly not a problem now. Why do we have to wrestle with this tough political issue now? How do you answer that?

Representative Penny. You can pay me now or pay me later. Wasn't there a commercial on TV once where—and the purpose of the commercial was to say that you can spend a little bit now and fix this thing permanently, or you can just pay me forever. It's sort of like a credit card where you can pay it off now and be done with it, or you can pay the minimum payment forever. And that's sort of the choice we're facing here.

And if we choose not to address Social Security reform now and we let this thing drag along until we do get to a point of crisis, then we're going to be cutting and pasting and cutting and pasting, year after year after year, well into the future. It's going to unsettle the markets, because they're going to look at a fiscal house that is not in order. So that's the reason it's important to address this now.

I gave an example during my initial remarks about what did happen when we waited until the crisis was already upon us. We've now got a window of opportunity to address this issue, and I think we ought to take it.

And I do want to just add one point about polling data, because depending upon how you word the question, you get widely disparate responses. But I've seen polling data that indicates that for younger people like Sandy, support for Social Security reform that includes personal accounts is about 80 percent.

The President. That's right.

Representative Penny. So it's huge. And frankly, the support for personal accounts as part of the solution—and it has to be part of a package. And that's what we tried to address in the Commissions: How do you put this all together in order to make it work for the long term, in order to pre-fund as much of this as we can while retaining a basic safety net under the traditional system. It has got to be a package. But when you talk about reform that includes personal accounts, it's

strongly favored by everyone that currently is ineligible to join the AARP. [Laughter]

And it seems to me this is really who we're talking about, because, as you've said, we're not talking about any changes in the near term. People who are eligible to join the AARP today are going to be protected under the traditional system. But we ought to, on a voluntary basis, give people working today the option of pre-funding part of their retirement and then owning that retirement in a way that the Government can't take it away from them.

Director Bolten. Tim, the other thing I've heard—and I'm going to ask Jim Glassman to come in here—the other thing I've heard is, "Well, maybe you do have to deal with the problem now because it just gets harder to deal with it later. But we can deal with this Social Security problem, and in fact, we can deal with most of our fiscal problems by raising taxes." How do you react to that as an economist? And how do you think markets would react to that kind of solution?

Mr. Glassman. Well, I think markets would worry about that. Because markets would worry about, what does that do to growth incentives and investment incentives and savings incentives? And I think, in the markets, we're interested in—we know it's a structural problem and we know that if you come up with structural changes and structural reforms, we're going to be much more impressed by that, because we don't need promises to cut this and that. What we need is to see that the reform that's taking place will be changing behavior and will be bringing market discipline into the process. And I think people would be pretty disappointed if the only solution you could think of was raising taxes.

The President. Why do markets matter to the person out there looking for work?

Mr. Glassman. You know, the markets are a barometer of this—this is where we, collectively, think about the future. And the markets are a taste test of what people, collectively, think is going to be happening in the future. So it's—for one thing, it's a barometer of what we think of your policies. And for another thing, it affects us when we go to take out a mortgage loan. Interest rates go up, because we don't like what's happening,

or we're worried about a policy that's not going to be fixing the problem, then we homeowners pay a price.

Director Bolten. Sandy, what—there has been talk about personal accounts here, and you've been around Iowa, I guess, campaigning for them. Tell me a little more specifically what it is that attracts you about them, what you would do with it, and whether you have any concerns about the safety of that, of making an investment in a personal account rather than letting the Government keep your money.

Ms. Jaques. Well, Tim already mentioned earlier, by the time I retire I should expect a 25 percent reduction in what I should expect to get. So I have a hard time thinking that I could do worse in a personal account than I could with the current system. So I guess I'm not worried at all about the security of my investments in a personal account. Because, as others have mentioned, the choices would be limited. I'm not going to be able to invest the money at the racetrack or invest it—you know, open up the paper and pick one stock and cross my fingers and hope that it does well. I will be given limited options for how to invest that in very diversified funds. So I'm not worried one bit that I would do better in a personal account than I would do under the current Social Security program because of the demographic changes that will take place before I retire.

But on a more broader sense, why personal accounts are important to me—it's very important to me because I think they're the only way to give me security in my retirement and my daughter's retirement without raising payroll taxes. I can look at paying the same percentage in payroll taxes until I retire but have a bigger account when I retire, because of the growth that will take place over the next 40 years that I work. I have 40 more years to work before I retire.

And if you raise payroll taxes, you're just going to be asking me to pay more but give me less when I retire. But with a personal account, I can pay the same amount in payroll taxes and use a portion of that to go to—into my personal account, so I can pay the same and get back more. Now, paying the same and getting back more when I retire—I don't know why anyone else is considering

any other option than that because I can't think of a better deal than that.

Director Bolten. Dick Parsons.

Mr. Parsons. Yes, just—the other thing that I think people need to consider when Tim talks about a window of time to operate is, the statistics we saw in the Commission say by about the year 2020, you're going to have about two people working for every person retired. But that's still two to one. And where I come from, that's a majority. And you've got to ask yourself, are those two going to let the Congress tax them sort of into oblivion to pay for the one that's not in the workforce. I don't think so.

I think the limit—there is a limit to how much you can tax, which means that either benefits will have to come down—that's inevitable, and people who have been promised something and who believe that they're entitled to something and who've planned on getting it aren't going to get it—or essentially, you sort of monetize it that you just issue more money to pay those promises. But by doing that, a dollar buys 50 cents of what it used to buy, so that we're on a collision or a train wreck course. And Tim is 100 percent right when he says that the time to start to deal with that—you can't fix this problem with no pain, without making some sacrifices. But the time to start making those sacrifices is now, so that they're manageable, so that the markets can have confidence that we're on a course that is going to avoid the train wreck. Because if we wait until later, it will be a huge train wreck for our whole economy.

Director Bolten. Mr. President, we're reaching the end of our time, and I'm going to do the smart thing and give you the last word. [*Laughter*]

The President. Thank you, Ambassador. [*Laughter*]

I love the idea of people being able to own something. You know, one of the most hopeful statistics in America is the fact that more and more people are owning their own home. It is a—it's just—I met a lot of people on the campaign trail that said, "I just bought my first home." And there's just such joy in their voice, that they were able to say, "This is my home."

I love the fact that more and more people are starting their own business. I think one of the unique things about America is that the entrepreneurial spirit is so strong that people are willing to take risks. People from all walks of life, all income levels are willing to take risks to start their own company. And it's a fantastic experience to meet people who say, "My business is doing well. I'm trying to do the best I can with my business."

And I like the idea of people being able to say, "I'm in charge of my own health care." In other words, "If I make a wise decision about how I live, I end up with more money in my pocket when it comes to a health care savings account." I particularly like the idea of a Social Security system that recognizes the importance and value of ownership. People who own something have a stake in the future of their country, and they have a vital interest in the policies of their Government.

And so I want to thank the panelists who are here for helping to illuminate the need to fix problems but, at the same time, recognizing the inherent optimism about promoting an ownership society in America. And I want to appreciate you helping advance this issue—these issues, so that when we begin the session after the new year, these will be foremost and forefront issues for the Congress to consider. Now is the time to solve problems and not pass them on. This is my message today. It'll be my message to Members of the United States Congress. We have come to Washington to serve, to solve problems and do the hard work so that when it's all said and done, they'll look back and say, well done, you did your job.

Thank you all for coming.

NOTE: The panel discussion began at 9:32 a.m. at the Ronald Reagan Building and International Trade Center. In her remarks, Ms. Sonders referred to Martin Feldstein, professor, Harvard University.

Remarks at the Closing of the White House Conference on the Economy December 16, 2004

The President. Thank you all very much. Go ahead and sit down. First, thank you all for participating in this important series of

seminars and speeches. I really thank you for sharing your time during what is a busy season. I particularly want to thank those who served on our panels for speaking clearly and helping people understand some of the issues that face our country. You know, it may be just that the panel on tax and regulatory burden could become the beloved holiday tradition here in Washington. *[Laughter]*

I really appreciate the different backgrounds of the people who spoke. We had your entrepreneur. We had your academic. We had your corporate leader. We just had plain old citizens show up. And I really want to thank you. The panels I participated in I thought were great.

It seems like to me there's some common themes that came through the discussions. First, our economy has come through a lot, and it's growing. I think people realize that, and that's positive. And there's a reason why people say it's growing, besides me, and that's because the facts say it's growing. I mean, we're growing at a pretty healthy rate of 4 percent over the last year. New jobs are being added. The manufacturing sector appears to be stronger. After all, they added 86,000 new jobs since January. Housing ownership and housing starts are still very robust and strong. Interest rates and mortgage rates are low. And there's the ingredients for growth available.

And what I also heard was that the good news shouldn't make us complacent. And I'm certainly not. The—one, I understand there's some areas of our country which are still struggling. I saw that firsthand during this past 90 days of active travel. There are some challenges as well that we heard about that we better get after and address now, before it's too late. And I intend to work with Members of the Congress and members here in this audience in the beginning of a new term to address the problems.

And here's how I see some of the problems. One, we need to update our Tax Code. It needs to be easier to understand and more simple. We need to make sure our health care system meets the needs of tomorrow. It's got to be flexible in its application. Consumers have got to have more say in the market. We need to reform our legal systems so the people, on the one hand, can get jus-

tice; on the other hand, the justice system doesn't affect the flows of capital.

Members of both parties are going to have to get together to work on this. This is not one of these series of issues that require a—one-half of the body to participate. These issues are big enough for all of us to need to work together. These are compelling national issues that require a national response.

I will work hard as the President to get rid of zero-sum politics in Washington that says, "Old George does fine if this passes, and my party doesn't." We've got to get rid of that. It's got to be that we all take risk and share risk and share in the rewards, so that this notion about one party benefiting over the other if we happen to do something positive for our Nation no longer is the pervasive psychology here in Washington, DC.

And I will remind people here in Washington that now is the time to confront problems. It's so much easier, in politics and in policy, to pass big problems on to future generations. That's an easy pass. But I didn't come up here to Washington—and I know a lot of people in my Cabinet didn't agree to serve—to pass problems on. I like to confront problems. I like to work with people so that we can say we left behind a better America after it's all said and done. And I don't have that much time here in Washington, so I'm going to—so I'm ready to work. And I want to thank you all for helping us highlight the issues that we have to work on.

I want to thank the members of my Cabinet. I'm so pleased to be working on these problems with a fine Secretary of Treasury, John Snow. You still have a Ph.D., right? *[Laughter]* In spite of that, I'm confident we can get a lot done here in Washington. *[Laughter]*

I want to thank my friend Donnie Evans, who's served so admirably here in 4 years. I'm going to miss him when he goes back to Texas. I appreciate Elaine Chao's service as the Secretary of Labor, and I'm pleased she'll be with this administration to work on these issues. Joshua Bolten, member of my Cabinet, head of the OMB—thanks for being here, Josh. Thanks for your good work. And finally, the Director of my National Economic Council, Steve Friedman, has done a

fabulous job. He has decided to go back into the private sector, for which I am a little hostile. [Laughter] But I appreciate your service, friend. Good job.

One of the tests of leadership at all levels of government is to confront problems before they become a crisis. And we've heard about some of the problems. Let me refresh your memories about the problems we have discussed. First, we've heard a lot about the growing burden of lawsuits. We have a litigious society, and it is a problem that is clear and a problem that we will confront.

According to a recent study, frivolous litigation has helped drive the total cost of America's tort system to more than \$230 billion a year. That's a lot of lawsuits. The figure is more than twice the amount Americans spent on automobiles in 2002. A study published this summer showed that tort liability costs for many small businesses run at about \$150,000 a year. That is a significant burden for a small business to bear. We believe, and many of you have—believe that that money can be better spent, that it's possible to have a justice system that is fair and balanced, that if you have a claim, you should be able to go to an uncluttered court to have your claim adjudicated.

Tort costs in America are far higher than any other major industrialized nation. That is bad news for America. It means that other nations are able to have a judicial system that is fair and balanced, and we're not. It puts us at a competitive disadvantage. And in a world that is more closely knit, America and American workers cannot afford to be at a competitive disadvantage.

And lawsuits can just plain ruin somebody's life. Donnie headed a seminar yesterday, and I happened to be there, and we heard the story of Hilda Bankston. I think Hilda is probably still here. There you go. First of all, Hilda was born in Nicaragua—*verdad?*

Hilda Bankston. Guatemala.

The President. Guatemala—see, I wasn't paying very close attention. [Laughter] Maybe I'll get the rest of the story right here. [Laughter] It's okay to correct the President, just not in front of all the TV cameras. [Laughter]

She and her husband, Mitchell, owned a drugstore in Fayette, Mississippi. I've never been to Fayette. I suspect it's one of those classic town squares in a southern city where the pharmacist is an integral part of the community. People come and go; people probably like to hang out and dig the latest gossip and all that—talked about the high school football team. The store got swept up in massive litigation just because it dispensed prescriptions—certain prescriptions. Small pharmacy, main square, Fayette, Mississippi, and a class action lawsuit sucks them into the legal system. She sold the pharmacy 5 years ago. She has spent countless hours being drug into the court system.

Here's what she said. She said, "My husband and I lived the American Dream until we were caught up in what has become an American legal nightmare." She went on to say, "I'm not a lawyer, but to me, something is wrong with our legal system when innocent bystanders are little more than pawns for lawyers seeking to strike it rich."

All Hilda asked for is a fair system, and the system right now isn't fair in this case. And we've got to do something about it. We've got to do something about it to make sure we're competitive. We've got to do something about it to make sure that there's not excessive costs, and we've got to do something about it to make sure people like Hilda don't get hurt by a system that was designed to protect people, not hurt people.

The people in Congress must know that excess litigation is not only a drag on our economy, but it is a constant source of fear and uncertainty—creates fear and uncertainty for people in the business community. To keep the economy growing strong in the future, we have got to lift the burden and reform our legal systems. The Nation needs class action lawsuit reform. The Nation needs to have asbestos legal reform. And this Nation needs medical liability reform. I'm looking forward to working with Congress to get legal reform done quickly in the upcoming legislative session.

We also heard about the rising cost of health care, which restricts access for our families and it makes it harder for employers to cover their workers. This problem is clear, and it will be confronted.

More than half of the uninsured Americans work for small businesses. Small-business owners know their employers well, and the ones I've talked to understand they have an obligation and a duty to help take care of them. But there's some times they're just not able to do so, particularly in the society in which we live today. After all, health care premiums have risen by 83 percent per employee over the last decade.

I just mentioned medical liability reform. There is no doubt in my mind, by passing real, substantive medical liability reform, it will help control the rising costs of health care. I believe small businesses should be allowed to join together to pool risk so they can negotiate for health care contracts just like big companies are able to do. And I'm pleased to report that we're—health savings accounts are beginning to work their way through our markets. After all, I just signed up for one 2 days ago. When it makes it to my level, you know it's going to be widespread these days. *[Laughter]* HSAs are making a difference.

Chris Krupinski owns an art and design studio in Fairfax. I talked to her last night. She's pretty enthusiastic about HSAs. If you didn't hear her talk, you should have. First of all, she is a—she went to insurance agent after insurance agent after insurance agent trying to find something she could afford, and eventually, she was paying \$900 a month for insurance for she and her family. Then she heard about health savings accounts, innovative ways for people to cover catastrophic care for their family, at the same time manage the cashflow needs—their own cashflow needs so they can provide primary care as well. Now she pays \$340 a month for a high-deductible plan, and she puts \$290 a month into her HSA—puts her own money in, money that will earn interest tax-free, money she can take out tax-free, money that's her own money, and she's saving money for her family at the same time. In other words, this innovative plan enables her to control her own destiny when it comes to health care and, at the same time, provides her comfort in knowing that if there is a catastrophe, the health insurance will cover it for she and her family. She's paying less overall. She chooses

her own doctor. She saves her own money, and she makes the health care decisions.

Fast-rising medical costs are a drag on this economy, and so there are some things we need to do together: One is expand health savings accounts; two, promote association health care plans—Congress needs to allow small businesses to pool risk; three, pass medical liability reform; four, continue to expand information technology throughout the health care system; five, move generic drugs faster to the market. In all we do, in all we do to reform health care, we've got to make sure the decisions are made by doctors and patients, not by bureaucrats in our Nation's Capital.

A lot of talk in this conference about the Tax Code and Federal regulations and the fact that regulations and the Tax Code cost billions of dollars a year. In the campaign, in the course of the campaign, I said to people, "The Tax Code is a complicated mess." Most people understood what I was talking about. Americans spend about 6 billion hours a year in filling out their tax returns, or at least trying to fill them out. *[Laughter]* The short form takes more than 11 hours to prepare. That's about the same amount of time it took to fill out the long form 10 years ago.

In the last 4 years, we passed major tax relief, and some of it is getting ready to expire. Take, for example, the death tax. It's getting ready to—the relief is getting ready to expire. In other words, the tax—death tax in 2011 is going to come back into being. Frankly, it's going to make estate planning awfully interesting in the year 2010. *[Laughter]* I want you to know that the death tax takes up more than 300 pages of laws and regulations in the current Tax Code. By getting rid of the death tax forever, we have simplified the code by 300 pages.

And not only that, I think it's good public policy. And so does Craig Lang. I met him before. He's a dairy farmer from Brooklyn, Iowa. His family farm has been in the family since 1860. That's when his great-great-grandfather arrived in Iowa. I wonder if he arrived from Brooklyn, New York. That would have been interesting, wouldn't it? *[Laughter]* Kind of the life goes full cycle thing. Anyway, Craig wants his children, of course, to inherit the farm. When we talk

about the family farm, one way to make sure the family farm remains a family farm is that family members run the farm after the current generation moves on. He now, in order to deal with the death tax, which I hope expires forever, is now working with a lawyer, a CPA, and an insurance agent, just so he can structure things correctly to keep the farm in his own family.

Here's what he said. He said, "We pay property taxes. We pay income taxes, and we pay sales taxes every year. It's simply not fair to be taxed again for creating wealth." I think Craig has got a lot of dairy farmer wisdom. [Laughter] I believe, in order to keep this economy growing, in order to send the right message to people who are willing to risk capital, all the tax relief we passed must be made permanent. And that includes the repeal of the death tax.

But I also understand that in order to deal with budget deficits, which we discussed the morning—this morning, we need to be tough when it comes to Federal spending. I look forward to working with Josh. Josh's job is to develop a budget that meets priorities and shows fiscal restraint. We believe it's possible to do so. As a matter of fact, we not only believe it's possible; we believe it is necessary to do so. It is important for our fellow citizens to know we're willing to prioritize. It's important for the markets to see that we've got enough discipline in Washington, DC, to make hard decisions with the people's money.

I look forward to finishing our budget deliberations inside the White House. Upon completion, Josh will be sharing the news with the Members of Congress and the public. You will see fiscal discipline exercised inside the Oval Office this coming budget cycle.

We understand the effects of paperwork on our administration. Again, Josh is in charge of making sure that this administration culls out, as best as possible, unnecessary regulation.

I used to tease people when I was campaigning. We'd have these small-business forums—I see one of our participants over here—and I would say that I know you fill out paperwork, but what I don't know is whether anybody ever reads it in Wash-

ington. [Laughter] So one thing for certain is we've got to make sure that the paperwork which is never read is eliminated to the best extent possible, so our small businesses, in particular, and big businesses are able to focus their energies and their time and their capital on job creation.

I'm going to appoint a citizens panel to study the Tax Code and recommend simplification proposals. Secretary Snow will be charged with that effort. The members of the panel will, of course, include tax experts. It will also have people who aren't experts—well, they're experts; they'll be experts in paying tax. [Laughter] The idea is to take a look at what's possible, what is necessary, and work with Congress to get something done to simplify the Tax Code. Now is the time to take on this important task.

In the conference, we heard much about the problems in the education system, which is not fully preparing our citizens for the jobs of the future. There is no doubt in my mind that if we expect to remain competitive in the world, we must educate every child.

Here is a startling statistic: Most new jobs in America are filled by people with at least 2 years of college. That's startling. What makes it even more startling is the fact that only one in four of our students gets there. That's a learning gap that must be closed. Twenty-five of the thirty fastest growing jobs in America require an education beyond high school. The median salary for someone with college experience is 69 percent greater than for someone who never attended college. That's a pretty good selling point, to say to somebody, "We want you to go to college."

Kay Haycock described the challenge—Kati Haycock described the challenge this way here at this forum. She said, "There are a huge number of American kids who are doing all the things they're supposed to do in high school and don't come close to having the skills and knowledge they need to succeed."

We started to change the system here in Washington with the No Child Left Behind Act. I understand that it's created some consternation. And it's created consternation because, in return for increased Federal spending, we finally started asking the question,

“Can you read and write and add and subtract?” It’s never seemed to me—for some, that’s called an unfunded mandate. To me, that’s called a necessary mandate, to make sure our children can learn.

All people who understand the importance of accountability are people who need to meet a bottom line, are people who are held accountable for signing up more accounts. Accountability is, in my judgment, crucial to making sure no child is left behind. How can you determine whether or not the curriculum—the reading curriculum you are using is working if you don’t measure? How do you know whether or not the teacher training is working if you cannot measure to determine whether or not the pupils of a particular teacher are able to meet certain standards? How do you know how your school is doing relative to the school next door to you? How do you know how your State is doing relative to the State next door to you? How do you know how your children are doing relative to the world? You don’t, unless you measure.

Secondly, measuring allows you to correct problems early. And so what we have done here in Washington, DC, is we have said, “In return for extra Federal money, we are going to insist that you measure.” Notice I didn’t say there would be a Federal test. That removes accountability away from those who are responsible for educating. It says, “You develop a test. You develop accountability standards. We’ll norm it around the country in a reasonable way without undermining local authority, but we want to know. We want to know. And where there’s success, we’ll help you heap praise upon those who deserve success. But where there’s failure, we will collectively blow the whistle so that we start getting it right.”

There is nothing worse than a school system—and I—you know, I was a Governor at one time, and I remember excuse-laden school systems. And I remember people going, “Oh, my goodness, all of a sudden we’re graduating children who can’t read.” And so we decided to do something about it, and that is get it done early, before it’s too late. The No Child Left Behind Act is going to make a significant difference so long as Congress doesn’t try to water it down.

And now we need to bring high standards and accountability to our high schools. And we’ve got to make sure our job training programs are working, that the job training programs actually train people for the jobs that exist, which means consolidation and flexibility.

I’m a big believer in the community college system in America. I think community colleges can help us address the needs and fill the achievement gap. I know community colleges are market-oriented places of higher education. They’re affordable. They’re accessible, and they’re able to adjust to the demands of the local economy.

Some of the most hopeful moments I’ve had as President have gone into communities and have seen the curriculum of a community college that has been adjusted to the demands of the local employer base, so that if jobs were lost, for example, in the North Carolina textile industry, there was an active, viable, vibrant community college system able to train workers to become nurses in the health care industry that was creating enormous amounts of jobs. The community college system and higher education, itself, must become—every young person must access our community college system and be prepared to do so—or higher education, in order for our economy to remain competitive as we head into the 21st century.

Social Security reform, entitlement reform is an important topic we discussed today. You know, there’s a—we talk about the deficit, and there is a short-term deficit here in Washington, which we’re going to close in half over a 5-year period of time. But there is a long-term deficit as well. And that long-term deficit really is the unfunded liabilities of the entitlement programs which make up roughly two-thirds of the United States budget.

One of the things that we heard today from experts was that the Social Security system is safe today but is in serious danger as we head down the road of the 21st century. And this problem has got to be confronted now. And we heard from people that know what they’re talking about on this stage this morning, saying that it is a far easier problem to manage today than it will be if we continue postponing solutions.

In 1950, there were 16 workers paying for every beneficiary. Today, there are about three, and when the younger workers retire, there will be only two workers per beneficiary. That should be a warning signal for those of us who are charged with having to confront problems and not pass them on to future Congresses or future generations. The system becomes untenable within a relatively quick period of time. The Social Security system is in the black today but in the long term has \$10.4 trillion in unfunded liability. That's trillion with a "T." That means that a 20-year-old worker today is being promised retirement benefits that are 30 percent higher than the system can pay. By the year 2018, Social Security will pay out more in benefits than the Government collects in payroll taxes. And once that line into red has been crossed, the shortfalls will grow larger with each passing year. We have a problem.

Now, some will say, "Well, that's 2018. I'm not going to be around." But I don't think that's what a good public servant thinks—should think. I think somebody who is charged with responsibly representing the people must look at the data that I just described and say, "Now is the time to work together to confront the problem." I understand how Government works. Congressman Penny was talking about the last time we dealt with the Social Security issue in a real earnest way was when there was a crisis.

A lot of Government, if the truth be known, is crisis-oriented management. You know, we wait and wait and wait, and then the crisis is upon us and everybody demands a solution. The problem with that when it comes to a modernization of Social Security is, is that the longer we wait, the more expensive the solution becomes. And so one of my jobs, one of my charges is to explain to Congress as clearly as I can, the crisis is now. You may not feel it. Your constituents may not be overwhelming you with letters demanding a fix now, but the crisis is now. And so why don't we work together to do so. I will also assure Members of Congress that this is an issue on which I campaigned, and I'm still standing. In other words, it's a—[*applause*].

If anybody is interested in the politics of Social Security, here's my view. First of all,

what has made Social Security a difficult issue to discuss is that many times when you discuss it, a flier would follow your discussion telling certain people in our society, generally those who have been on Social Security, that they're not going to get their check. I mean, that is fairly typical politics in the past. It really has been. And so people were afraid to address the issue, and I can understand why. If you talk about reforming Social Security, modernizing Social Security, you would get clobbered politically for it.

But that dynamic began to shift recently—recently being, I think the 2000 election. President Clinton, after the '96 election, had a lot of very important panels on the subject. He began to lay the groundwork for substantive, real change. He felt comfortable discussing it. I felt comfortable campaigning on it in two elections. I'll tell you why: Because once you assure the seniors that nothing will change, you're really speaking to people that don't believe they're going to get a check at all, and that is the younger generation coming up. And therefore, the dynamic has shifted. And therefore, there's millions of people wondering whether or not the Government has the courage to do something to make sure a younger generation will have a viable retirement system available when they retire. And that's how I see the issue.

I did talk about some principles during the course of the campaign: One was, nothing will change if you're retired or near retirement; two, I do not believe we should raise payroll taxes to try to fix the system; three, I do believe younger workers ought to be allowed to take some of their own money, some of their own payroll taxes, and, on a voluntary basis, set up a personal savings account, an account that will earn, an account that they manage, an account that earns a better rate of return than the current—that their money earns inside the current Social Security trust, an account that they can pass on from one generation to the next—in other words, it's your asset—and an account the Government can't take away.

I am—one of my strong beliefs is that all public policy, to the extent possible, ought to encourage ownership in America. I believe in owning things. I think it will be healthy for our system for people to own and manage

their own retirement account. It will cause them to have a vital stake in public policy. People will ask more questions about fiscal responsibility than ever before. People will want to watch carefully decisions made by Government at all levels if they have a vital stake in watching their portfolio grow.

I will also say again, like we said this morning, that people are not going to be allowed to take their own money for their retirement account and take it to Vegas to shoot dice. [Laughter] This is going to be a managed account, similar to the Thrift Savings Plans that we Federal employees have available to us now.

These challenges I've just discussed are important challenges. They are big agenda items, but they should be. I mean, why think little when it comes to making sure America is still the center of excellence in the world? Great economies do not get weak all at once. They're kind of eaten away, you know, year by year, by challenges that people just refuse to meet. Slowly but surely, an economy, a great economy, can be eroded to the point of mediocrity. This Nation must never settle for mediocrity. This Nation must always, always strive for the best and leave behind a better America for our children and our grandchildren.

And so we've got to confront the problems I just talked about, and I want to thank you all for coming to highlight the problems. I assure you that I understand that success in dealing with these problems will require strong cooperation in Washington, that I have a responsibility to reach out to members of both political parties, and I will meet that responsibility. I look forward to working with you all to help make clear that not only are the problems existing but there's reasonable solutions to solve them.

In all we do, we've got to make sure that the American economy is flexible. One of the reasons why we're a great place in the world for people to do business and realize their dreams is because we have a flexible economy. We've got to make sure that we're always a competitive economy, we're willing to accept competition and take competition on. I happen to believe competition makes this a better world rather than a worse world. We've always got to stay on the leading edge

of innovation. There's always got to be a proper role between Government and the economy. The role of Government is not to create wealth. The role of Government is to create an environment in which the entrepreneurial spirit is strong and vibrant.

And as I said this morning, when we meet these challenges, we can say to ourselves and perhaps other generations will eventually say about us, "Well done. You did the job you're supposed to do."

Thank you for helping us do our job. God bless. Thank you all.

NOTE: The President spoke at 1:27 p.m. at the Ronald Reagan Building and International Trade Center. In his remarks, he referred to Kati Haycock, director, Education Trust, Washington, DC; and former U.S. Representative Timothy J. Penny, senior fellow, Hubert H. Humphrey Institute of Public Affairs, University of Minnesota. The Office of the Press Secretary also released a Spanish language transcript of these remarks.

Remarks on Signing the Intelligence Reform and Terrorism Prevention Act of 2004

December 17, 2004

Good morning. In a few minutes, I will sign into law the most dramatic reform of our Nation's intelligence capabilities since President Harry S. Truman signed the National Security Act of 1947.

Under this new law, our vast intelligence enterprise will become more unified, coordinated, and effective. It will enable us to better do our duty, which is to protect the American people.

I want to thank the Members of Congress who have worked hard on this legislation. I particularly want to thank the leader of the Senate, Bill Frist, Speaker of the House Denny Hastert, and their counterparts in both bodies. I appreciate Senator Susan Collins from Maine and Senator Joe Lieberman from Connecticut for steering this legislation through the United States Senate. I appreciate Congressman Pete Hoekstra and Congresswoman Jane Harman for their leadership on this important issue as well. Welcome.

I want to thank all the Members of Congress who have joined us today for your good work on this legislation. I appreciate the members of my administration who helped, and that would be Director Porter Goss, Director Bob Mueller, Condi Rice, and Fran Townsend. I particularly want to thank the 9/11 Commission, ably led by Tom Kean and Lee Hamilton. I want to thank the Commission members who are here as well.

I pay my respects and offer our gratitude to the family members of the victims of September the 11th. Thank you for working hard on this issue. Thank you for remembering your loved one.

Nearly six decades ago, our Nation and our allies faced a new—the new world of the cold war and the dangers of a new enemy. To defend the free world from an armed empire bent on conquest, visionary leaders created new institutions such as the NATO Alliance. The NATO Alliance was begun by treaty in this very room. President Truman also implemented a sweeping reorganization of the Federal Government. He established the Department of Defense, the Central Intelligence Agency, and the National Security Council.

America, in this new century, again faces new threats. Instead of massed armies, we face stateless networks. We face killers who hide in our own cities. We must confront deadly technologies. To inflict great harm on our country, America's enemies need to be only right once. Our intelligence and law enforcement professionals in our Government must be right every single time. Our Government is adapting to confront and defeat these threats. We're staying on the offensive against the enemy. We'll take the fight to the terrorists abroad so we do not have to face them here at home.

And here at home, we're strengthening our homeland defenses. We created the Department of Homeland Security. We have made the prevention of terror attacks the highest priority of the Department of Justice and the FBI. We'll continue to work with Congress to make sure they've got the resources necessary to do their jobs. We established the National Counterterrorism Center, where all the available intelligence on terrorist threats

is brought together in one place and where joint action against the terrorists is planned.

We have strengthened the security of our Nation's borders and ports of entry and transportation systems. The bill I sign today continues the essential reorganization of our Government. Those charged with protecting America must have the best possible intelligence information, and that information must be closely integrated to form the clearest possible picture of the threats to our country.

A key lesson of September the 11th, 2001, is that America's intelligence agencies must work together as a single, unified enterprise. The Intelligence Reform and Terrorism Prevention Act of 2004 creates the position of Director of National Intelligence, or DNI, to be appointed by the President with the consent of the Senate.

The Director will lead a unified intelligence community and will serve as the principle adviser to the President on intelligence matters. The DNI will have the authority to order the collection of new intelligence to ensure the sharing of information among agencies and to establish common standards for the intelligence community's personnel. It will be the DNI's responsibility to determine the annual budgets for all national intelligence agencies and offices and to direct how these funds are spent. These authorities, vested in a single official who reports directly to me, will make all our intelligence efforts better coordinated, more efficient, and more effective.

The Director of the CIA will report to the DNI. The CIA will retain its core of responsibilities for collecting human intelligence, analyzing intelligence from all sources, and supporting American interests abroad at the direction of the President.

The new law will preserve the existing chain of command and leave all our intelligence agencies, organizations, and offices in their current Departments. Our military commanders will continue to have quick access to the intelligence they need to achieve victory on the battlefield. And the law supports our efforts to ensure greater information sharing among Federal Departments and Agencies and also with appropriate State and local authorities.

The many reforms in this act have a single goal, to ensure that the people in Government responsible for defending America have the best possible information to make the best possible decisions. The men and women of our intelligence community give America their very best every day, and in return, we owe them our full support. As we continue to reform and strengthen the intelligence community, we will do all that is necessary to defend its people and the Nation we serve.

I'm now pleased and honored to sign into law the Intelligence Reform and Terrorism Prevention Act of 2004.

NOTE: The President spoke at 9:59 a.m. at the Andrew W. Mellon Auditorium. In his remarks, he referred to the National Commission on Terrorist Attacks Upon the United States (9/11 Commission). S. 2845, approved December 17, was assigned Public Law No. 108-458. The Office of the Press Secretary also released a Spanish language transcript of these remarks.

Proclamation 7856—Wright Brothers Day, 2004

December 17, 2004

By the President of the United States of America

A Proclamation

On Wright Brothers Day, we honor the achievement and imagination of Orville and Wilbur Wright, two bicycle mechanics from Dayton, Ohio, who changed the world with their optimism, creativity, and persistence. On this day, we recall a monumental event in the history of our Nation and in the story of mankind.

On a cold December morning in 1903 on the Outer Banks of North Carolina, a small wood and canvas aircraft sent America on a journey far beyond the sands of Kitty Hawk. The flight spanned 120 feet and lasted just 12 seconds, yet it ushered in a new era of unimaginable advances in aviation and aerospace technology. Today, air travel is vital to our country, helping bring people together and sustain our security. In addition, the aviation industry strengthens our economy by supporting millions of jobs.

The spirit that led the Wright Brothers to powered flight continues today in America's space program. From providing surveys of the sun to images of the planets, our spacecraft are exploring the outer edges of our solar system and revolutionizing our view of the universe. Under my Vision for Space Exploration Program, we will proudly carry on the Wright Brothers' tradition of innovation. As we embark on the next century of flight, that spirit of discovery will help our Nation and the world realize the full promise of tomorrow.

The Congress, by a joint resolution approved December 17, 1963 (77 Stat. 402; 36 U.S.C. 143) as amended, has designated December 17 of each year as "Wright Brothers Day" and has authorized and requested the President to issue annually a proclamation inviting the people of the United States to observe that day with appropriate ceremonies and activities.

Now, Therefore, I, George W. Bush, President of the United States of America, do hereby proclaim December 17, 2004, as Wright Brothers Day.

In Witness Whereof, I have hereunto set my hand this seventeenth day of December, in the year of our Lord two thousand four, and of the Independence of the United States of America the two hundred and twenty-ninth.

George W. Bush

[Filed with the Office of the Federal Register, 8:45 a.m., December 21, 2004]

NOTE: This proclamation will be published in the *Federal Register* on December 22.

Executive Order 13366—Committee on Ocean Policy

December 17, 2004

By the authority vested in me as President by the Constitution and the laws of the United States of America, it is hereby ordered as follows:

Section 1. Policy. It shall be the policy of the United States to:

(a) coordinate the activities of executive departments and agencies regarding ocean-related matters in an integrated and effective

manner to advance the environmental, economic, and security interests of present and future generations of Americans; and

(b) facilitate, as appropriate, coordination and consultation regarding ocean-related matters among Federal, State, tribal, local governments, the private sector, foreign governments, and international organizations.

Sec. 2. Definition. For purposes of this order the term “ocean-related matters” means matters involving the oceans, the Great Lakes, the coasts of the United States (including its territories and possessions), and related seabed, subsoil, and natural resources.

Sec. 3. Establishment of Committee on Ocean Policy.

(a) There is hereby established, as a part of the Council on Environmental Quality and for administrative purposes only, the Committee on Ocean Policy (Committee).

(b) The Committee shall consist exclusively of the following:

- (i) the Chairman of the Council on Environmental Quality, who shall be the Chairman of the Committee;
- (ii) the Secretaries of State, Defense, the Interior, Agriculture, Health and Human Services, Commerce, Labor, Transportation, Energy, and Homeland Security, the Attorney General, the Administrator of the Environmental Protection Agency, the Director of the Office of Management and Budget, the Administrator of the National Aeronautics and Space Administration, the Director of National Intelligence, the Director of the Office of Science and Technology Policy, the Director of the National Science Foundation, and the Chairman of the Joint Chiefs of Staff;
- (iii) the Assistants to the President for National Security Affairs, Homeland Security, Domestic Policy, and Economic Policy;
- (iv) an employee of the United States designated by the Vice President; and
- (v) such other officers or employees of the United States as the Chairman of the Committee may from time to time designate.

(c) The Chairman of the Committee, after coordination with the Assistants to the President for National Security Affairs and Homeland Security, shall regularly convene and preside at meetings of the Committee, determine its agenda, direct its work, and, as appropriate to deal with particular subject matters, establish and direct subcommittees of the Committee that shall consist exclusively of members of the Committee. The Committee shall coordinate its advice in a timely fashion.

(d) A member of the Committee may designate, to perform the Committee or subcommittee functions of the member, any person who is within such member's department, agency, or office and who is (i) an officer of the United States appointed by the President, (ii) a member of the Senior Executive Service or the Senior Intelligence Service, (iii) an officer or employee within the Executive Office of the President, or (iv) an employee of the Vice President.

(e) Consistent with applicable law and subject to the availability of appropriations, the Council on Environmental Quality shall provide the funding, including through the Office of Environmental Quality as permitted by law and as appropriate, and administrative support for the Committee necessary to implement this order.

Sec. 4. Functions of the Committee. To implement the policy set forth in section 1 of this order, the Committee shall:

- (a) provide advice on establishment or implementation of policies concerning ocean-related matters to:
 - (i) the President; and
 - (ii) the heads of executive departments and agencies from time to time as appropriate;
- (b) obtain information and advice concerning ocean-related matters from:
 - (i) State, local, and tribal elected and appointed officials in a manner that seeks their individual advice and does not involve collective judgment or consensus advice or deliberation; and
 - (ii) representatives of private entities or other individuals in a manner that seeks their individual advice and does not involve collective judgment or consensus advice or deliberation;

(c) at the request of the head of any department or agency who is a member of the Committee, unless the Chairman of the Committee declines the request, promptly review and provide advice on a policy or policy implementation action on ocean-related matters proposed by that department or agency;

(d) provide and obtain information and advice to facilitate:

- (i) development and implementation of common principles and goals for the conduct of governmental activities on ocean-related matters;
- (ii) voluntary regional approaches with respect to ocean-related matters;
- (iii) use of science in establishment of policy on ocean-related matters; and
- (iv) collection, development, dissemination, and exchange of information on ocean-related matters; and

(e) ensure coordinated government development and implementation of the ocean component of the Global Earth Observation System of Systems.

Sec. 5. Cooperation. To the extent permitted by law and applicable presidential guidance, executive departments and agencies shall provide the Committee such information, support, and assistance as the Committee, through the Chairman, may request.

Sec. 6. Coordination. The Chairman of the Council on Environmental Quality, the Assistant to the President for National Security Affairs, the Assistant to the President for Homeland Security, and, with respect to the interagency task force established by Executive Order 13340 of May 18, 2004, the Administrator of the Environmental Protection Agency, shall ensure appropriate coordination of the activities of the Committee under this order and other policy coordination structures relating to ocean or maritime issues pursuant to Presidential guidance.

Sec. 7. General Provisions. (a) Nothing in this order shall be construed to impair or otherwise affect:

- (i) authority granted by law to a executive department or agency or the head thereof; or
- (ii) functions assigned by the President to the National Security Council or Homeland Security Council (includ-

ing subordinate bodies) relating to matters affecting foreign affairs, national security, homeland security, or intelligence.

(b) Nothing in this order shall be construed to impair or otherwise affect the functions of the Director of the Office of Management and Budget relating to budget, administrative, or legislative proposals.

(c) This order is intended only to improve the internal management of the Federal Government and is not intended to, and does not, create any right or benefit, substantive or procedural, enforceable at law or in equity by a party against the United States, its departments, agencies, or entities, its officers or employees, or any other person.

George W. Bush

The White House,
December 17, 2004.

[Filed with the Office of the Federal Register, 10:46 a.m., December 20, 2004]

NOTE: This Executive order will be published in the *Federal Register* on December 21.

Digest of Other White House Announcements

The following list includes the President's public schedule and other items of general interest announced by the Office of the Press Secretary and not included elsewhere in this issue.

December 11

In the morning, the President had an intelligence briefing. Later, he traveled to the National Naval Medical Center in Bethesda, MD, where he had his annual physical examination and visited injured U.S. military personnel.

In the afternoon, the President returned to Washington, DC.

December 12

In the afternoon, at the National Building Museum, the President and Mrs. Bush participated in the taping of the annual “Christmas in Washington” concert for later television broadcast.

In the evening, on the State Floor, the President and Mrs. Bush participated in a holiday reception.

December 13

In the morning, the President had an intelligence briefing.

The President announced his intention to nominate Michael O. Leavitt to be Secretary of Health and Human Services.

December 14

In the morning, the President had an intelligence briefing.

In the afternoon, at Blair House, the President and Mrs. Bush participated in a holiday reception for members of the diplomatic corps.

In the evening, on the State Floor, the President participated in a holiday reception.

The President announced his recess appointment of Ronald Rosenfeld as a Director and designation as Chairman of the Board of Directors of the Federal Housing Finance Board.

December 15

In the morning, the President had a telephone conversation with President-elect Traian Basescu of Romania to congratulate him on his December 12 election victory. He then had an intelligence briefing.

Later in the morning, in the Oval Office, the President met with Members of Congress and some of their constituents, who presented the President with gifts.

In the afternoon, in the Residence, the President had lunch with Prime Minister Silvio Berlusconi of Italy.

In the evening, in Room 350 of the Dwight D. Eisenhower Executive Office Building, the President participated in a holiday reception for moderators and panelists from the ongoing White House Conference on the Economy.

Later in the evening, on the State Floor, the President participated in a holiday reception.

December 16

In the morning, the President had an intelligence briefing.

In the evening, the President and Mrs. Bush participated in a holiday reception for members of the press.

December 17

In the morning, the President had an intelligence briefing.

Later in the morning, in the Oval Office, the President received an update on the report of the U.S. Commission on Ocean Policy. Later, he signed Executive Order 13366—Committee on Ocean Policy.

The President announced his intention to appoint Bobby R. Burchfield as a member of the Antitrust Modernization Commission.

The President made additional disaster assistance available to West Virginia, which was impacted by severe storms, flooding, and landslides on September 16–27.

Nominations Submitted to the Senate

NOTE: No nominations were submitted to the Senate during the period covered by this issue.

Checklist of White House Press Releases

The following list contains releases of the Office of the Press Secretary that are neither printed as items nor covered by entries in the Digest of Other White House Announcements.

Released December 13

Transcript of a press briefing by Press Secretary Scott McClellan

Released December 14

Transcript of a press briefing by Press Secretary Scott McClellan

Released December 15

Fact sheet: Securing Our Economic Future: The White House Conference on the Economy

Statement by the Press Secretary on additional disaster assistance to West Virginia

Released December 16

Transcript of a press briefing by Press Secretary Scott McClellan

**Acts Approved
by the President**

Released December 17

Transcript of a press briefing by Press Secretary Scott McClellan

Approved December 17

Transcript of a telephone press briefing by Council of Economic Advisers Chairman N. Gregory Mankiw on the administration's forecast for 2005

H.R. 4012 / Public Law 108-457

Transcript of a press briefing by White House Council on Environmental Quality Chairman James Connaughton on the U.S. Oceans Action Plan

To amend the District of Columbia College Access Act of 1999 to reauthorize for 2 additional years the public school and private school tuition assistance programs established under the Act

Statement by the Press Secretary announcing that the President signed H.R. 4012

S. 2845 / Public Law 108-458

Intelligence Reform and Terrorism Prevention Act of 2004